THE CO-OPERATIVE MOVEMENT IN INDIA

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BY

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With an Introduction by
SIR HORACE PLUNKETT

FIFTH EDITION

revised and enlarged by
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THIS BOOK IS DEDICATED TO ALL UNSELFISH
WORKERS FOR THE CAUSE OF CO-OPERATION,
IN WHICH, IN ITS BROADEST ASPECT,
LIES THE HOPE, NOT ALONE OF THE
GREAT COUNTRY OF INDIA,
BUT OF THE WORLD

CONTENTS

PREFACE

Important as planned development is in co-operative effort, the necessity for individual and group initiative has to be kept in mind, and Government control and participation, essential as these may be to many co-operative societies, kept to a reasonable limit. Planning must not be carried to the point of discouraging initiative or encouraging exploitation by the lazy or the dishonest. It has to be borne in mind that the wilful defaulter is a drag upon his better intentioned fellow members, undermining in effect the very basis of co-operation.

There have been, however, outstanding successes in some of the Indian States, with proportionate benefits to the members of not a few societies.

In this preface to the fifth edition of *The Co-operative Movement in India*, I should like to express my grateful appreciation of the co-operation I have received from Shri K. Madhava Das of the Agricultural Credit Department of the Reserve Bank of India, now on deputation to the Planning Commission as Director of Co-operation, who has lent me his valued help in all the editions from the second, published in 1950.

Shri Madhava Das acknowledges with appreciation, to which I add my own, the help received by him from Shri S. L. Dennis in compiling the tables and in collecting some of the material, and from Shri S. J. Sanzgiri, who helped in preparing the charts.

Our thanks are also due to several others in the Agricultural Credit Department of the Reserve Bank of India, who have given their assistance in the preparation of this edition.

I am thankful to the Reserve Bank of India for having permitted Shri Madhava Das to revise the book. The views expressed by Shri Madhava Das are his personal views and are not attributable either to the Reserve Bank or to the Planning Commission.

Bangalore ELEANOR M. HOUGH

INTRODUCTION TO THE FIRST EDITION

By the LATE RT. HON. SIR HORACE PLUNKETT, K.C.V.O.

IN December last a young American lady, passing through London on her way from India to the United States, called upon me. She told me that she had written a book upon 'The Co-operative Movement in India', and that if I would write a brief Introduction, she would be greatly obliged. She was unknown to me; I was in poor health and in hopeless arrears with some literary work I had hoped to do. She explained that she had spent the greater part of a year in India; that her book was a 'thesis' required for the Degree of Doctor of Philosophy at the George Washington University; and that her request was prompted by the frequent evidences, brought to her notice in the course of her Indian studies, of my keen interest in her subject. I could not do more than promise to consider her request. She left me a ponderous tome in typescript and a most favourable impression of my strange visitor. With thanks in anticipation and a charming courtesy, she wished me better health and was gone.

From her ship she wrote that an eminent firm of London publishers had taken her book and would send me the proofs. These came in due course, together with an admirable Foreword by Professor Kaji, which seemed to take all the wind out of my sails. Nevertheless, I set to work upon the formidable task of reading the book, and I simply could not put it down. I soon came to the reason for my suggested intervention. In 1928 I had written a Memorandum upon Co-operation for the Royal Commission upon Indian Agriculture, over which Lord Linlithgow presided; and Miss Hough, in her exhaustive search, had procured a copy.

I had prefaced my essay with an account of the agricultural co-operative movement in Ireland from its origin in 1889. I did so because some Indian students had taken a keener interest in our endeavour to reorganize Irish

agriculture upon co-operative lines than had any oth outsiders. More particularly were they interested in o work among the more backward peasantry along the weste seaboard of the island, where they found a rural communi with so many characteristics with which they were famili at home that some of them told me the Irish Celt mι have migrated from the East in prehistoric times. In bo countries the prosperity of every section of the populati depended, directly or indirectly, upon the amount wealth produced from the soil, upon the efficiency of i production and the economy of its distribution. We to them of the two fundamental principles upon which o efforts were based—namely, the immeasurably more effecti value of organized voluntary action than of state assistanc however essential this might be; secondly, we insisted up regarding and treating agriculture in three aspects—as a industry, as a business and as a life. We had not yet adopte our formula, Better Farming, Better Business, Better Livin

I must, however, restrict the mention of my own opinio to those which appear to have appealed to Miss Hougl She notes, not apparently with disagreement, my submissio that the widely spread and numerously supported India Co-operative *Movement* would more accurately be calle a Co-operative *Policy*. It was created by 'resolutions' (t all intents and purposes laws) of the Central Governme and has been administered almost wholly by the able civil service in the world. A huge posse, now nearly a Indian, of Registrars, Assistant Registrars, Auditors an Accountants, inspects, supervises, and largely controls th co-operative societies scattered over the continent. Thes societies are so predominantly for the purpose of credi that comparatively little attention has been given to th other co-operative objects and functions needed to brin the movement into the co-operative category. It could no have been otherwise, since indebtedness and its relief i necessarily the primary purpose in view. All the talk abou 'Indianization' and 'de-officialization' but leads to th general conclusion that Indian organizers will have to b trained gradually to build up an indigenous and spontaneou

movement upon the foundations laid. In such a development, which Miss Hough realizes it will take a generation or more to achieve, she visualizes tremendous possibilities, which His Majesty may well have had in mind when, at the Durbar at Delhi in 1911, he declared that 'if the system of co-operation can be introduced and utilized to the full, I foresee a great and glorious future for the agricultural interests of the country'.

It would be impossible in brief space to give an adequate summary of the contents of this remarkable survey; but I feel bound to add a few words in appreciation of its quality. As I recalled my own relatively exiguous effort to grasp the actual achievement and future potentialities of the attempt to apply to Indian conditions the principles and methods of co-operation as they have been worked out in the West, I became more and more fascinated with this latest contribution to India's co-operative problems. Miss Hough was not appalled, as I was, by the voluminous literature on the subject, but determined to master it. She embarked upon an itinerary which brought her into personal touch with typical communities with which the central and local governments were seeking to try out their co-operative experiments. The interested student will not fail to observe how, in the Appendices, many books of reference and innumerable official documents are listed—not, as is a too common practice, in order to impress the reader with the comprehensiveness of the documentation, but to enable him to find the relevant needles in the huge stacks of hay. Close upon a thousand notes give the authorities upon which she relies for statements made.

The supreme merit of the work is its placing of co-operation in its proper setting—that is, as one factor of immense present and far greater prospective importance in the national economy of a country whose future prosperity depends mainly upon the organization of the overwhelming majority of the population engaged in the production of food and the raw material of some industries. While full account is taken of the social conditions, the illiteracy, the racial, linguistic, and other complexities which bulk

so largely in the political difficulties, there is the most skilful avoidance of controversial politics. I give it as my humble opinion that all who are genuinely concerned for the welfare of India's millions of peasant folk and wish to grasp their baffling economic problems, with due regard to the eternal human factor, will do well to follow the trail this enterprising thesis has so finely blazed.

HORACE PLUNKETT

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CHAPTER I

THE BACKGROUND

INDIA'S attainment of her ardently desired freedom in 1947, the large transfers of population which succeeded partition and the reorganization of states in 1956 have not affected fundamentally the background against which the co-operative movement must be viewed or the weaknesses in the economic structure which challenge the constructive thinking of the greatest minds of the country. However, one significant recent development should be mentioned. This is the positive role accorded to co-operation in planning. Co-operative development is part of India's Five-Year Plans. Herein lie vast opportunities for the expansion and progress of the co-operative movement, together with some problems connected with the preservation of the essential principles of co-operation in a planned economy of which the co-operative sector forms a part.

To determine the weaknesses in the economic structure and the possibilities of co-operation in relation to them, it is necessary to analyse the conditions—geographic, social, economic and industrial, as well as political—which contribute to the present situation. Arraignments of isolated elements have often ignored the numerous contributory factors, the accurate evaluation of which must precede constructive remedial measures.

The Geographic Background

According to the census of 1961, India, with a land area only 42 per cent of that of the United States, contains—one hesitates to say 'supports'—just under 439,000,000 people, more than twice the population of the U.S.A. Rich as it is in natural resources and in manpower, it obviously is overpopulated for its present stage of economic development, as witness the large proportion of the population who, impoverished and in debt, are living dangerously near the limit of subsistence.

In shape not unlike the South American continent, the Indian subcontinent is a geographic unit, the Indian Ocean and the Himalayas having cut it off for centuries from contact with the West except by sea or through the passes in the north-west. Great alluvial plains with fine soil represent about two-thirds of the cultivable area. The richest soil is in the plain which stretches across the northern, non-peninsular part of the country. Most of the peninsula, and central India almost to the Ganges and Jumna rivers, consists of rocky highlands, yielding small returns.[1*]

The total geographical area of India is about 806 million acres, of which the reporting area is about 721 million acres. The net area sown is about 318 million acres.[2] The area irrigated from all sources in 1950-51 was 51·5 million acres, constituting about 17·5 per cent of the total cultivated area. By the end of the Second Plan, it was proposed to bring an additional area of 12 million acres under major and medium irrigation projects.[3] Great things for regional improvement are also to be hoped from the several great irrigation projects which have been undertaken, as in the Sutlej, Damodar and Mahanadi valleys. In many parts of the country, however, the scarcity of water serves as a check on the extension of the cultivated area. The schemes for irrigation undertaken during the three Five-Year Plans have an aggregate potential of about 44 million acres (gross), leaving a balance of about 44 million acres to be covered under new schemes.

There is marked climatic variation between different sections, but the seasonal distribution of rainfall, which averages about 45 inches for the peninsula, allows double cropping in a very wide area.[4] Except, however, where irrigation has introduced a measure of stability, the yield depends largely on the monsoon rains which are subject to great local variations.

India has varied mineral resources, coal, manganese, gold and petroleum leading in commercial importance,[5] though the uranium deposits in Kerala may have a signi-

*Numbers refer to bibliographic references assembled at the end of the book.

ficance for the future out of proportion to their quantity. India also produces building materials, salt, silver, mica and zinc[6] and is said to have some of the richest iron ore deposits in the world, though as yet inadequately exploited.

Rice is overwhelmingly the leading crop, with nearly 84 million acres sown in it in 1961-2, as compared with about 33 million in wheat.[7] Maize, groundnuts, tobacco and fodder crops also are grown in considerable quantities, and there are other products of great regional importance such as tea in Assam and jute in West Bengal.

Cattle and buffaloes are exceptionally important in predominantly vegetarian India, both for draught purposes and as a source of natural fertilizer as well as for milk production, which is far below the minimum requirements for health. Their number had been somewhat depleted by indiscriminate slaughter during the war years, but it is still estimated that the number of cattle and sheep is more than 39 per cent of the human population,[8] their feed constituting a charge of 4·6 per cent upon the productive capacity of the number of acres sown. There were 306 million farm animals, according to the livestock census of 1956. Of these, cattle numbered about 159 million and buffaloes about 45 million, forming nearly one-fourth of the world's bovine population. However, the productivity of India's livestock is generally poor.

The Social Background

For all its geographic unity, the Indian peninsula is an ethnologic mosaic. Many belong to the Aryan race, but there are also many descendants of the Dravidians who inhabited the subcontinent before the successive invasions of Aryans, Scythians, Pathans and Moguls. There are numerous other distinct racial types, including the Mongoloid and the Turko-Iranian, and mixtures of the invading races with the Dravidian elements of the population, but the antecedents of the population are of less immediate interest for our purpose than its distribution.

The population of India averaged 370 per square mile

in 1961, as compared with the 215 per square mile in the 1931 census, excluding Burma, never an integral part of the peninsula and completely separated from India before the 1941 census. Kerala has by far the densest population, 1,127 per square mile. Almost 82 per cent of India's population is purely rural. There are 2,689 towns and 564,258 villages in the country. One hundred and seven cities in India have a population of 100,000 and above. The rural-urban ratio had remained fairly constant since 1891, though the pressure on the land is claimed to have somewhat increased, but the influx into cities has been accelerated by the large shifts of population which followed partition. During the period 1921 to 1961, there has been a slow but steady shift towards the urban areas. The percentage of urban population in relation to the rural population was 18·0 in 1961, as compared with 11·4 in 1921. The cultivators do not, as a rule, live scattered on separate farms, the smaller size of the average holding facilitating the grouping of agriculturists in villages, mostly clusters of flat-roofed mud huts, from which they go out to cultivate their respective fields in the neighbourhood.

The population has grown steadily in the half-century since a regular census was first taken. Infant mortality, however, is high, especially in the towns, in spite of the primitive and insanitary maternity arrangements in the rural areas. The infant mortality figure in India is said to be about 92 per 1,000 live births. It is reported that the general death rate per 1,000 of the population has decreased from 19·7 in 1947 to 13·3 in 1960. The expectancy of life has risen from 26 to 33 years, while the birth rate has declined slightly from 33·9 in 1957 to 32·6 in 1960. Climate and other natural circumstances no doubt contribute, as claimed, to rendering the people liable to many epidemic and contagious diseases, but many of the diseases are preventible—not by the inoculations increasingly urged upon simple and docile folk but by sanitation, anti-malarial measures, and economic and dietary reforms. Such measures would save the country the hundreds of crores of rupees represented by the tremendous present wastage of efficiency as wel l as

of life which these diseases involve, to say nothing of their incalculable dividends in human values.

India stands pre-eminent in philosophy, and her contributions to literature, to art and to science, modern as well as ancient, entitle her to an honourable place among the nations. The average Indian, however, despite a penchant for metaphysics, is no more a Bose or a Tagore than the average citizen of another country. He is typically a small cultivator, usually unlettered but not unintelligent, eking out his existence in poverty and discomfort on the produce of his few acres. He is generally frugal, but it is not surprising that, living in such straitened circumstances, he finds it difficult to lay up in a good year for the lean years to come. It must be a strong temptation to use the little surplus from an exceptionally good harvest for small comforts usually denied, and the occasional custom-dictated marriage or other festival may wipe out the savings of years and heavily mortgage the future.

Unfortunately, after the partition of India and even for some years before, the evils of sectarian orthodoxy and intolerance revealed themselves as never before, culminating in the tragic death of Gandhiji. Discounting the part played in inter-communal clashes by lawless elements standing to gain from the attendant confusion and also the part suspected to have been played sometimes by *agents provocateurs*, there is ample evidence that the religious toleration for which India has been traditionally famous no longer characterizes the people to the same extent. The religions of India are many, with Hinduism decidedly in the majority, the remaining population being divided into Muslims, Buddhists, Sikhs, Jains, Parsis, Christians, Jews, Brahmos, followers of tribal religions, etc.

In a culture whose roots go so far into the past, it is natural to find that custom has a greater sanctity and binding force than in newer civilizations, but some customs of long standing have changed under the impact of Western culture. Critics of the existing system have made much capital out of undesirable social customs claimed to inhibit India's progress, but the movement towards later marriage

is encouraged by the Sarda Act of 1929, which penalizes parents who give in marriage children under certain ages. There never has been any seclusion of women in south India, and in the north it has affected chiefly city people of respectability, principally Muslims. The prejudice, however, against women earning money, and, in some parts of the country, against their helping in the fields, is deep-rooted and represents a handicap to economic prosperity.[9]

The increasing number of women finding employment in mills and offices, though still comparatively small, bears witness to the weakening of this prejudice to some extent, though it has sometimes been found a serious handicap to the recruitment of women co-operative workers, as in Punjab.[10] As co-operative work among women spreads, the taboo will undoubtedly be relaxed. Even today, remunerative work for middle-class women inside the home causes no loss of standing.

The caste system of Hinduism, originally 'simply a local method of dividing labour with the object of securing a maximum of social efficiency and responsibility with a minimum of social friction',[11] has hardened with the centuries into a rigid mould which hampers national progress. In the beginning, the castes were not iron-clad hereditary divisions, but gave an actual indication of the stage of individual development. The four main castes correspond to the four principal functional groups in any civilization —the Brahmans, teachers and priests; the Kshatriyas, rulers or warriors; the Vaisyas, merchants and agriculturists; and the Sudras, or labourers, the serving class. Occupation has been an element, though not the only one, in caste formation, every vocation giving birth to a new hereditary caste, until there are now over four hundred subdivisions of the original four castes, though birth in one of them is no longer binding in the choice of a vocation.[12] Gradually endogamy became the social norm and social intercourse with those of lower castes, except in the larger towns, as also with those of no caste, the so-called 'Scheduled Castes' or Harijans, was frowned upon. There are millions of 'Untouchables' in India today, the amelioration of whose

condition is a national problem of importance in the Indian Republic. Under the inspiration of Gandhiji, the National Congress in 1920 adopted the removal of untouchability as a vital part of its constructive programme,[13] and already many desirable changes in the attitude towards this group are reported.

Only less if not equally serious, from an economic point of view, is the low esteem in which manual labour is generally held, a weakness largely chargeable to the caste system. Throughout the country, manual labour implies loss of dignity for the higher castes, and most of the population consider themselves debarred from certain types of 'demeaning' work;[14] as though it were the occupation that determined the dignity of the man, instead of *vice versa* !

The culture of the Indian peninsula presents a striking fundamental unity of pattern, for all its multiplicity of sources and despite the horizontal divisions of caste and the vertical ones of differences of creed and language and party.[15]

The language diversity[16] is not only a barrier to communication but sometimes also to full mutual sympathy. The controversy between Hindi and Urdu or Hindustani as claimants to the role of national language was a contributory cause of Hindu-Muslim tension in pre-partition days, and the erection of several Indian languages into regional fetishes[17] are symptoms of the present spirit of divisiveness which they in turn strengthen. English, the language most commonly understood by educated people throughout the peninsula, is perhaps out of favour at the moment, in certain areas, though it is difficult to see how it could be dispensed with for some years to come.

The educated classes, however, form a small percentage of the total population. In 1961, 24·0 per cent of the total population was literate. Compulsory primary education, free for all who cannot afford to pay, is still remote for most of the subcontinent. Even the Sargent Plan, formulated before the large-scale transfer of refugee populations which made the solution of all problems more difficult, envisaged forty years as a conservative minimum.[18] According to a

directive in the Constitution, the state was to endeavour within a period of ten years from the commencement of the Constitution to provide free and compulsory education for all children until they complete the age of 14 years. Only the states of Andhra Pradesh, Gujarat, Madhya Pradesh, Mysore, Punjab and Delhi have enacted legislation for compulsory primary education.

And even more urgent than the spread of primary education is the need, in the new political context, for adult education to provide an enlightened electorate.

The Hindu family, reckoning relationship by descent from a common ancestor within seven generations,[19] was for long the economic unit of Hindu society. This fostered a spirit of self-sacrifice and mutual co-operation, but discouraged individual initiative by removing the necessity and the reward for individual effort.[20] The joint-family system has, to a great extent, broken down in most parts of the country, leaving nepotism as one of its legacies.

The village system is the foundation rock of Indian economy. The Indian village was claimed by Shri K. S. Venkataramani to furnish 'the most compact and adequate social, political and economic machinery' for working out in daily practice 'the great basic ideals of "plain living and high thinking", striking the happiest combination between work for self-sufficiency and service rather than for gain, and leisure for the higher things of life'.[21] It has been called 'the original type, the first germ, of all the divisions of rural and civic society in medieval and modern Europe'.[22]

The traditional Indian village was typically almost self-sufficing, as some still are to some extent, with considerable division of labour among its members. The agriculturists grew all the food needed, the smith made the ploughshares and a few iron household utensils, the potter made pots, the weaver cloth, and the oil-man produced oil from oilseeds, each recompensed by the services of his fellow-villagers.[23] It is, however, unrealistic at present to take the village as a harmonious entity. There are big cultivators, small cultivators, rural traders and moneylenders and so on, whose

interests may often clash. Some of these classes may be closely allied or one and the same, e.g., the big cultivator running a money lending business. This traditional village organization has handicapped to some extent the spread of subsidiary occupations among the cultivators, who in many parts of the country must be idle for about one-third of the year.

The village was the major political unit as well, elections being held for committees for various administrative duties, with age and property as well as educational requirements for candidates.[24] Wave after wave of invasion swept over the country without affecting the village structure. The state followed quite consistently the policy of non-interference, leaving the villages autonomous and confining the activities of the central government largely to the protection of life and property and the collection of the revenue for these duties.[25] All this has changed now. More and more attention is being bestowed upon village development, as part of the Five-Year Plans. Modern economic forces in the shape of roads, radio, railways, etc. are also penetrating the countryside and changing the face of rural India.

The Economic Background

Any comparative estimates of the capital wealth of India, national or private, past or recent, must be highly speculative.[26] The peninsula is rich in natural resources and in man-power; its fabled wealth was the lodestone that first drew the East India Company to its shores in 1600. There is no doubt that the drain upon the country's riches in the meantime has been enormous, more than offsetting, some claim, the increased value of property which has followed in the wake of railways, irrigation projects and other British developments.

The isolated figures available, such as the capital invested in Indian railways, Rs 1,690 crores in 1961-2[27], and in irrigation and flood control programmes during the Third Plan, Rs 661 crores,[28] are inadequate for any thoroughgoing calculation of total capital wealth, such as the United

States Bureau of the Census undertook some years ago for that country.

It is a safe generalization, no doubt, that the land represents the chief wealth in a country where so large a percentage of the population lives on the soil. Livestock forms a higher proportion of India's total wealth than in most countries. Farm implements and machinery are relatively unimportant, though the use of improved types of implements is gradually spreading. Manufacturing machinery, tools and implements still form a comparatively small, though an increasing, fraction of the total wealth; the same is true of mineral products. Among a population so impoverished, clothing and furniture, which in the U.S.A. have been estimated to represent about one-eighth of the national wealth, must account for a very much smaller fraction of the total. Furniture especially is at a minimum in the houses of the poorer classes. Even beds are rare and adequate lighting is a luxury which millions in rural India must forgo.[29]

Official bodies in various states have attempted estimates of the average income of different sections of the population from time to time. The Whitley Labour Commission made in 1931 the first attempt at a comprehensive survey of wages throughout the country, but its investigation was limited to conditions of labour in industrial undertakings and on plantations, leaving the great majority outside its scope. The scale of wages which it reported for unskilled labour has been forced up to some extent by the effect of inflation on living costs, but wages are still low enough to account for much of the growing industrial friction and unrest.

Shri V. T. Krishnamachari declared on 11 April 1948, in his presidential address at the Nineteenth Bombay Provincial Co-operative Conference, that the Indian standard of living was the lowest in the world, except perhaps in parts of China and Africa. There had, he said, been no increase in real income (though the money income might be higher) since Dr V. K. R. V. Rao had estimated in 1931-2 the *per capita* annual income of a rural resident in

British India as between Rs 51 and Rs 48,[30] which in terms of the rate of exchange in October 1948 was the equivalent of between $15·62 and $14·70 a year, in American dollars.

The Reserve Bank in 1944 mentioned the estimate of Rs 65 for the *per capita* annual income in the country as a whole, and Rs 48 for the rural *per capita* average.[31]

Among unofficial estimates of national and private income may be mentioned the thoroughgoing inquiry of Prof. K. T. Shah and Shri K. J. Khambata, who estimated the total national income in 1921-2 at Rs 2,364 crores[32] and the average *per capita* net income as Rs 57 per annum.[33]

Gloomy as the economic position was in the twenties, however, it worsened greatly during the depression years, to improve to some extent under the artificial stimulus of war. The terrible Bengal famine of the early forties, however, when the position generally was improving, brought home the lesson of how precarious is the margin between subsistence and starvation for the masses.

Assurance that, despite the inadequacy of average individual income, the economic and financial structure of the Republic of India is one of the soundest in the world may be drawn from various official pronouncements.

In spite of this, however, the inflationary tendency of these times represents an important economic problem. It can be ascribed to several factors, including underproduction of quality goods, over-issue of notes and deficit financing, the government's unbalanced budget, the perhaps premature lifting of control on the necessities of life, and a too widespread attitude of 'profits first'. The vast sums of money which are being spent on defence, especially after the Chinese attack in 1962, are also likely to increase inflationary pressures unless rigorous programmes of economy and rooting out of corruption are put through quickly and effectively.

Some recent figures might be mentioned. The national income of India for 1953–4 was computed at Rs 10,490 crores compared to Rs 8,650 crores in 1948–9. The *per capita* income in 1953–4 was reckoned at Rs 281·0 as compared to Rs 246·9 for 1948–9.[34] The Third Five-Year Plan

indicates that national income will increase from about Rs 14,500 crores at the end of the Second Plan to about Rs 19,000 crores at the end of the Third Plan. Making allowance for the increase in population, on these estimates the income *per capita* should go up from Rs 330 at the end of 1960–61 to Rs 385 in 1966.[35]

The obvious need for credit facilities under the existing conditions throws into prominence the question of the country's banking structure. In the twenties, at the instance of the Central Legislature, Banking Enquiry Committees for each major province, as well as for some of the smaller political divisions and for the country as a whole, investigated the situation, their terms of reference being quite wide,[36] and some of their findings of importance to the co-operative as well as to the joint-stock banking system. The Imperial Bank of India, which at that time headed the country's banking structure, fell short of being a true state central bank. It was not until 1934 that the Reserve Bank of India was established, though on a joint-stock basis, 'to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability ... and generally to operate the currency and credit system of the country to its advantage'. It was also given certain functions in relation to co-operative banks, its valuable service in the discharge of which will be considered separately.

There are still few banks in the interior and still fewer clearing houses. Remittance facilities have been inadequate and the rates rather high as compared with other countries.[37] In many outlying parts the shroffs or indigenous bankers, with their network of offices and agencies, are the only medium besides the Post Office for the transmission of funds.[38] These perform the principal functions of a modern bank, except that they have only recently allowed cheques to be drawn against customers' accounts.[39] The shroff has been the chief recourse of the cottage industries and the small organized industries and a not negligible factor in financing the larger ones. These indigenous bankers offer the advantages of personal and confidential relations with customers, constant accessibility,

freedom from the formalities and delays of modern banking, and the keeping of accounts in the local Indian language. Their dealings with their clients are generally straightforward, and a shroff's word is said to be better than an expensive bond.[40] The business of an indigenous banker is usually organized on a joint-family basis with unlimited liability.[41] Most of them combine trade or a commission agency with their banking business.[42]

The absence of bankers' acceptances and the infrequent use and discounting of negotiable instruments, necessitating a large movement of bullion and currency to adjust internal trade balances, have constituted a weakness of banking in India which applies less to the shroffs than to organized banking agencies. The shroff makes considerable use of credit instruments in exchange transactions, the sight or usance bills employed being termed *hundis*.

The forging of a link between the central banking institution and the indigenous bankers was pointed out by the Bombay Banking Enquiry Committee as of vital importance, not only to the evolution of a co-ordinated credit system, but also to the spread of banking facilities in taluka and other small centres.[43] The lack of correlation between the various agencies has been perhaps the basic weakness of the Indian banking structure. The Postal Savings Banks are merely agencies for securing deposits and have the same disadvantage as the organized banks of draining the rural districts of their surplus funds, which are urgently needed for financing agriculture.[44]

The role of co-operative banking institutions will be discussed in detail later, but the subject of banking facilities cannot be dismissed without pointing out the entire inadequacy of the other credit facilities for the cultivators, artisans and small traders who make up the bulk of the population. Neither the Imperial Bank of India (now the State Bank of India), the exchange banks, nor the joint-stock banks in general serve the small man, and the average cultivator is quite outside their province. Justice to their shareholders and depositors has been held to forbid their undertaking business in which the returns are uncertain and depend

on such variable factors as the adequacy of the monsoon rains. The present banking structure, with the exception of the co-operative land mortgage banks, is quite unable to provide long-term credit at low interest rates for such purposes as land improvement, to say nothing of debt redemption, and such credit is vitally important to the hoped-for economic regeneration. Even the shroff serves the mass of the cultivators but indirectly, by furnishing the moneylenders with much of the capital which they borrow from him at a low rate and lend in turn to their hapless clients at a high one.[45]

The agriculturists' debt relief legislation in a number of states will be discussed under the heading of Factors Conditioning Prosperity (p. 27), but must be mentioned here in connexion with the financial background.

A recommendation which had a far-reaching effect upon the credit picture was that made in 1945 by the Agricultural Finance Sub-committee headed by Prof. D. R. Gadgil, appointed by the central government on the recommendation of the Policy Committee on Agriculture, Forestry and Fisheries, to report on the ways by which 'indebtedness could be reduced and finance, both short-term and long-term, provided under efficient control for agricultural and animal husbandry operations'. That committee recommended that the necessary process of debt adjustment for all solvent debtors should be accompanied by complete reconstruction of the financial structure. Specifically, it proposed the setting up by the states of agricultural credit corporations to make mortgage finance available and to supply the credit needs of all credit-worthy borrowers. It would work preferably through co-operative societies for short-term and intermediate loans to the smaller cultivators. The committee provided in its recommendations that where the state government felt that the co-operative financial agencies were sufficiently developed to undertake all the work proposed for the agricultural credit corporation, no separate corporation need be set up.

The Bombay Government approved the finding of its Agricultural Credit Organization Committee, headed by

Shri Manilal B. Nanavati, that no separate corporation need be set up there. Though the committee did not visualize the possibility of very early provision for all credit-worthy agriculturists through the co-operative societies, it yet felt that the co-operative movement, suitably organized, could come closer to that goal than the proposed agricultural credit corporation, starting *de novo*, would be able to do within the next ten years. Recent developments following from the Report of the All-India Rural Credit Survey Committee will be dealt with separately.

The systems under which land is held represent another factor in the economic background. The basic theorem in the system of land-holding in British India, as in England itself, was the idea that all land belongs, in the final analysis, to the state, which, as the supreme landlord, receives revenue from the land as rent, in return for protection and legal security. Actually, however, the British Government everywhere conferred or recognized a private right in land.[46]

Where land revenue was fixed in perpetuity and paid by the landlord, it was called a 'Permanent Settlement'. Under this system the actual cultivators were not small proprietors, but tenants. This had been the situation in Bengal and the greater part of Oudh, which had been joined with Agra to form the United Provinces (now called Uttar Pradesh), and also in some sections of Madras. Bihar too was till very recently a zamindari province.[47] There and elsewhere the land revenue was figured at intervals of about thirty years on the basis of a thorough survey, and the settlement was known as 'Temporary'. Land tenures under it may be landlord holdings, on which the landlord pays on a rental assessment, or peasant holdings, which again are of two kinds. Under one, each occupant holds his land directly from the government, as in old Bombay, Assam and most of Madras, while under the other, which prevailed in the north, the land was held by the village community, the heads of the village being responsible for the revenue on the whole area of the village. The assessment was based on actual revenue at the time of the settlement, and improvements effected by private enterprise were exempt from assessment.[48]

The maximum revenue charge for landlord holdings was usually 50 per cent and possibly as low as 25 or 35 per cent of the rental, while for peasant holding assessments one-fifth of the gross produce was the extreme limit, with considerable variation below that.[48] There had been much complaint against the land revenue as excessive, but the government always stoutly denied that taxation was either immoderate or burdensome and that over-assessment was, as alleged, a general or widespread cause of poverty or a contributory cause of famine.[49]

Small holdings, cultivated with the peasant's own labour, predominate, very large holdings being confined almost wholly to the great plantation industries such as tea, coffee and rubber, which take up about 1,000,000 acres, chiefly in the north-east and extreme south,[50] representing considerably less than half of 1 per cent of the cropped area. According to recent figures, tea, coffee and rubber plantations cover less than 0·4 per cent of the cropped area. The area under tea cultivation in 1960 was 828,000 acres. The relevant figures (for 1960–61) with regard to coffee and rubber were 295,000 and 352,000 acres. Whether the cultivator held his land directly from the state or as the tenant of a zamindar depended chiefly on the section of the country.

Investigation years ago convinced Dr H. H. Mann, former Director of Agriculture in Bombay, that the average rental paid to landlords was half the return the cultivator could make, the burden of rent being much greater in the case of large estates.[51] The peasant proprietor obviously is better off, too, from the standpoint of security for credit.

Subinfeudation probably had gone farthest in Bengal, where many intermediate tenures between the proprietor and the cultivator have been the rule. One Bengal estate was found by the Provincial Banking Enquiry Committee in 1930 to have thirty such intermediate tenures, one under another.[52] Even where tenancy was general, however, the agriculturist had often certain occupancy rights.

Shri Manilal Nanavati was quoted in July 1948 as saying that 30 to 60 per cent of village lands were owned by absentee landlords and adding, 'If Indian agriculture is to be placed

on a sound footing the elimination of this *rentier* class should be demanded in no uncertain terms'.

Peasant holdings were reported largest in old Bombay and Punjab. In the former, however, fragmentation increased so rapidly between 1904–5 and 1943–4 that in the latter year no less than 49 per cent of the holdings (comprising, however, only 9·5 per cent of the total area) were of less than five acres.

The average size of a holding for the country as a whole has been estimated at approximately 7·5 acres. The subdivision of holdings into such small units must be laid at the door of the inheritance laws of the Hindus and Muslims, although the gradual decline of the joint-family system among the Hindus no doubt has played its part. More serious still, the peasant's small property often is split into innumerable fragments, sometimes too small to be cultivated without trespass on neighbouring land. The requirement that all heirs shall share equally in the immovable property of the deceased has been commonly interpreted as meaning that the few acres received by each must be split into as many fragments as there are different soils in the village, so that all may get equal shares of all different kinds of land.[53] Efforts have been made in Punjab and elsewhere to cope with the difficulty through co-operative activity. A few states such as Punjab, Uttar Pradesh, Maharashtra, Gujarat and Madhya Pradesh have recorded useful progress in consolidation. By the end of 1959–60, about 23 million acres had been consolidated and work was in progress on another 13 million acres.

Almost all states have enacted legislation for the reform of tenancy and abolition of intermediaries. Laws abolishing intermediary tenures have been given effect to in most of the states. It has been reported that these measures have brought about 20 million tenants into direct relationship with the state and improved their economic position. Out of a total amount of Rs 670 crores, compensation to the extent of Rs 164 crores has so far been paid, mainly in the form of bonds.[54] The First Five-Year Plan commended the principle that there should be an absolute limit to the amount of land

which an individual may hold. During the Second Five-Year Plan, it was proposed that steps should be taken in each state to impose ceilings on existing agricultural holdings. Some states have introduced legislation for this purpose. The Third Five-Year Plan has commented that 'in recent years, transfers of land have tended to defeat the aims of the legislation for ceilings and to reduce its impact on the rural economy'.

Estimates of the volume of internal trade are bound to be inaccurate, even in countries more advanced economically. It is probably safe to assume that in India, with its great population, internal trade has been considerably in excess of foreign commerce, but the discrepancy tends to be reduced by several factors, such as the large proportion of the people living in villages which have been traditionally self-sufficient and still are so perhaps to some extent, the relatively meagre cultivation of cash crops as compared with maintenance crops, inadequate transportation facilities, and especially the general poverty, which so greatly limits effective demand. The incomplete standardization of weights and measures generally has been another inhibiting factor.

India ranks high in value of total imports and exports, and her balance of trade had until recent years been almost invariably favourable.[55] She has not produced enough to feed her own people adequately. The great export staples have been jute, cotton, oilseeds, tea, hides and skins, wool and tobacco and formerly foodgrains, especially rice and wheat.[56] Raw cotton represented 9·2 per cent of total imports of all commodities in 1944–5. In recent years of scarcity, imports of foodgrains have assumed great importance. The adverse balance of trade mounted from Rs 50 crores in 1950–1 to Rs 233 crores in 1962–3 (April to November).

Inadequate transportation facilities were mentioned as conditioning the development of internal trade. As early as the middle of the last century the importance to India of transportation was recognized by the far-sighted Lord Dalhousie, who outlined the system that has been followed in the development of the Indian railways.[57] It is, however,

a great pity that piecemeal attack upon the problem resulted in the adoption of different gauges, complicating internal transportation and adding to its cost by making necessary much transhipment and reloading of goods wagons which a standard gauge would have obviated.

The route kilometrage of the Indian railway system, the country's biggest nationalized undertaking, was 57,089 (35,680 miles) in 1961–2. The railways have undoubtedly played an important part in averting a large number of serious famines in recent years by making the reserves available in normal times to the whole of India. The dislocation of transportation facilities during the war was, however, one of the contributory causes of the terrible Bengal famine of 1943.

In addition to the railways, in 1943 India had 95,054 miles of metalled roads.[58] By the end of the First Five-Year Plan (March 1956), the total road mileage rose to 316,668, including roads under the Community Development Projects and National Extension Schemes. About 22,000 miles of surfaced roads were constructed under the programmes drawn up by the states in the Second Plan. During the Third Plan, it is expected that 25,000 miles of surfaced roads will be added. Under a new plan, an attempt will be made to ensure that no village in a developed and agricultural area will remain more than four miles from a metalled road and more than a mile and a half from any type of road. Motor transport is still a relatively negligible factor in the transportation situation, and no doubt will remain so until the cultivators' economic condition shows marked improvement. The road system in general is sadly inadequate even for bullock-carts. Innumerable villages are practically isolated during the monsoon months, only a small proportion being near railways or good roads.[59] Better communications are indispensable to the development of subsidiary occupations no less than to the encouragement of intensive cultivation.

The Co-operative Planning Committee pointed out the need for a large expansion of the means of transportation if farm equipment was to move freely, to say nothing of farm produce. It recognized such an expansion as lying

largely outside the scope of the co-operative movement, though something could be done by the organization of transport co-operatives and of labour co-operatives for the construction and maintenance of roads. It pointed out not only that British India had a road mileage of 35 per 100 square miles, the corresponding figure for the U.S.A. being 100 and for the United Kingdom 200, but also that the position regarding coastal shipping and inland water transport was unsatisfactory.[60] More recently, the All-India Rural Credit Survey Committee's Report (1954) has stressed the importance of rural communications.

The progressive nationalization of transport facilities, understood to be called for by government policy in the Indian Republic, should be in the interest of all-round improvement and standardization.

The Industrial Background

The fundamental importance of agriculture in national and world economy was forced upon public notice by the food shortage and the resulting sufferings in many countries during and since the Second World War, bringing home the truth of the saying of the ancient Tamil sage, Tiruvalluvar, that 'the tiller of the soil is the axle-pin of the revolving world'.[61] This applies pre-eminently to India, where the majority of the people live by agriculture, if we call 'living' the hand-to-mouth existence of most sections of the community.

The rural population are devoted to the land and loath to leave it for industrial labour or domestic service in the cities if this can possibly be avoided, but migration in search of work is a common feature of rural life in some states, notably Punjab, Bihar and Orissa. Such migration, where it occurs, is not in the main a permanent exodus, but only a temporary transfer.[62] The resulting abnormally high labour turnover is a disadvantageous feature of Indian organized industry. India has for some time been feeling the growing pains of modern civilization in a reflection of the unfortunate conditions which have accompanied the industrial revolution in every Western country, and distres-

sing conditions are found among the labouring classes in the larger industrial centres.

Relatively small as is the proportion of the population of the Indian peninsula which is supported by industries, transportation or mining, in 1958 India had 8,052 registered factories defined as those employing 20 or more workers on any day and using power. Of these, 6,617 which submitted returns employed 1,820,539. India had for years been classed by the International Labour Organization as one of the world's eight most important industrial states and as such had a permanent seat on its governing body.

Dr Colin Clark calculated in 1947 that production per man-hour of work in India was only 1/14th of man-hour production in the United States, basing his computation on output statistics.[63] The production figures from India's main industry—agriculture—being largely speculative, too much importance need not be attached to this depressing comparison, but reasons for a smaller output of labour in India would not be hard to find, e.g. the widespread undernourishment and preventible disease and, in the case of factory workers, the overcrowding and the unnatural conditions under which migrant labourers are forced to live, to name only a few of many factors.

The income from manufacturing industries was estimated in 1920–21 at about 1/11th of the value of agricultural produce.[64] According to preliminary figures for 1961–2, the income from agriculture (including forestry and fishery) was 46·8 per cent of the total national income as compared with 19·1 per cent for mining, manufacturing and small enterprises. The relevant figures for 1948–9 were 49·1 per cent and 17·1 per cent respectively. If this estimate is trustworthy, the proportion of industrial production is undoubtedly higher today though the relatively greater increase in agricultural prices in the last few years has helped agriculture to hold its own. The recent attitude of labour, which wage concessions seem not to have improved materially, hampers production.

There have been small industries springing up all over the country for the last several decades, and a marked

tendency was reported in 1931 for the primary manufacturing processes for agricultural products, such as sugarcane crushing, oilseed pressing and rice hulling, to extend increasingly to the small towns and larger villages.[65] In spite of the industrial progress of large-scale industries in recent years, India is still a country where small-scale production is largely prevalent.

The cottage industries continue to occupy an important place in the economic structure. It is estimated that about 20 million people are engaged in cottage industries. About 5 million people are employed in the handloom industry or about as many as are employed in all other organized industries, including large-scale industries, mines and plantations. The *swadeshi* movement brought *khaddar*, handspun and hand-woven cloth, into unprecedented popularity but, though handloom weavers were used to a certain extent in the execution of war contracts, they have often fared ill in the allocation of scarce yarn. A determined effort is being made by the central and state governments to rehabilitate the industry and to place it on a sound footing by co-operative means, but the economic condition of the handloom weavers is still generally wretched.

While a large percentage of workers in the cottage industries are in the textile field, there are other important cottage industries, including tanning and leather-work; earthenware, tile, brick and porcelain; basket-making; metal-work; oil-pressing; the food industries; printing and lithography; bangles and beads,[66] lacquer, toys and coir.

Pessimists have not been wanting to point out the impossibility of damming permanently the stream of industrial progress and to claim that organized industries must come sooner or later to dominate the situation and that the artisan must go under in the struggle against superior organization and resources. In spite of the efforts to spread co-operation among workers in the cottage industries, those in the cities are still largely under the control of the moneylender.

There is not space to consider at any length the case for and against greater industrialization for India. It is urged by some economists as the only salvation for the

masses from crushing poverty. Shri Manilal Nanavati wrote some years ago that 'the fundamental cause of India's poverty is the excessive pressure on land and diminishing yields due to the crowding of people from all directions into this single occupation'. But to recognize the need for diversification of occupations is not necessarily to approve the Western factory system, which at its worst has caused untold misery and at its best has been held by other thinkers to fall far short of the traditional Indian village pattern of life, in terms of real and lasting human values, of which material wealth is not the chief. 'Villagism' as opposed to large-scale industrialization has even now several staunch advocates in India.

The mistake is sometimes made of assuming that economic prescriptions valid for countries where men are the critical factor in the familiar production formula of men, materials, money and the *entrepreneur* will work as well under quite different conditions. The enthusiasts for large-scale cultivation and labour-saving machinery too often overlook the basic fact that India is fabulously rich in labour; relatively poor, despite its vast extent, in land and, still relatively to man-power, poorer still in other material resources. Increased production is exceedingly desirable, no doubt, but so is wholesome and adequate employment for the hundreds of millions who inhabit the subcontinent. Any methods which reduce employment opportunities, however valuable in a country where man-power is relatively scarce, must be critically viewed in the Indian context.

An excellent case can be made out for local industries and small-scale farming, with improved methods and adequate but controlled credit, as holding the better solution, combining a considerable increase in production with wider opportunities for subsistence, if not yet for the good life for all. Man does not live by bread alone and no people are better fitted by temperament than the Indian villagers, unspoiled by contact with Western materialism and ambition, to appreciate the Chinese saying, 'If you have two loaves, sell one and buy a lily'.

The Government of India has fortunately kept in mind

the desirability for the Republic of India of decentralization of production, with regional self-sufficiency the aim, and the encouragement of cottage industries, organized for effectiveness on a co-operative basis but free from the authoritarian concomitant of planning as found elsewhere. India's Third Five-Year Plan states that with 'improvement in techniques and organization, these industries offer possibilities of growing into an efficient and progressive decentralized sector of the economy providing opportunities of work and income all over the country'. The Third Five-Year Plan provides an outlay of Rs 264 crores for village and small industries, as compared with an estimated expenditure of about Rs 180 crores in the Second Plan.

The Political Background

No discussion of India's national economy can be complete without at least a brief consideration of the political situation and the causes which have led up to it.

Village autonomy has been a tradition from the dawn of history, and our knowledge of political conditions in India goes back several centuries B.C. The village had only the most tenuous connexion with the central authority before the coming of the British, the tax paid by the village to the government collector having been for centuries practically the only link with it. Municipal functions in ancient India included the preservation and maintenance of public halls, temples, tanks, rest-houses, wells for the supply of drinking water to travellers, construction of water courses and relief of the distressed.[67]

Foreign historians between the fourth century B.C. and the seventh century A.D. recorded that India was prosperous under the Hindu kings, that justice was administered impartially, and that taxes were levied with equity.[68] From A.D. 646 on, the Muhammadan conquerors controlled various portions of the country, their dominion culminating in the Mogul Empire which lasted from 1526 to 1761,[69] but the central authority, Hindu, Buddhist, or Muslim, rarely, if ever, interfered with the internal administration of the village.

Such was the situation when the East India Company after 1600 assumed an increasing measure of control of the government of more and more of the country, the break-up of the Mogul Empire in the eighteenth century giving it its great opportunity by almost forcing it to strengthen its position. The anarchy which followed that break-up, before the Company could put an end to it, is claimed to have undermined the foundations of the ancient system of village government.[70] The internal administration of the villages remained practically unaffected during the Company's tenure of power, but, apart from that, the people were long excluded from any participation in the administration of the country,[71] though they were increasingly associated in the government in recent decades.

From 1784 on, the Company was subject to the Board of Control in London, presided over by a Cabinet Minister.[72] The Sepoy uprising of 1857 led to the termination, in the following year, of the Company's rule and to Great Britain's assumption of direct political authority over all the country except the so-called Indian States. The latter, under Indian Princes, had practically complete local autonomy, but not full sovereignty, as the Empire had entire control of their foreign affairs and maintained gratuitous advisers at their courts. The erstwhile Hyderabad State, eight times the size of Belgium and with twice as many inhabitants as the Netherlands, was much the largest of the Indian States, but Mysore had more people than Sweden, and Gwalior more than Denmark.[73] It may be mentioned in passing that, while conditions in some left much to be desired, a few of the Indian States have given evidence of a more enlightened policy than was followed in British India proper, with their higher percentage of literacy and more advanced social legislation.

The rapid centralization of authority in British India which followed the British Government's assumption of direct control ignored the indigenous self-governing bodies of the villages. Despite the efforts made in recent years to restore the village panchayat to power, local self-government, up to the reforms of 1919, consisted largely of

Municipal Boards and District Boards for urban and rural areas, respectively, of comparatively recent introduction[71] and with no roots in the soil. The powers restored to the panchayats in many cases since then include control of water supply, lighting, and grazing rights, and responsibility for the cleaning of the village, the repair and construction of of roads, etc. More recently, greater powers have been conferred on village panchayats under the scheme of democratic decentralization, or *Panchayati Raj*.

It is not necessary here to detail the story of the British connexion with India from 1857 till 1947, when, by one of the greatest moral victories in history, a victory which owed, however, not a little to the social conscience of the party in power in Britain, India won her longed-for freedom and the two new nations, India and Pakistan, assumed the responsibilities of self-government.

Important for our purpose, however, was the transfer to provincial control by the Act of 1919 of a number of subjects, including Local Self-Government, Public Health, Education (except European and Anglo-Indian), Public Works, Agriculture, Fisheries, Industries, Excise and Co-operative Societies.

The idea of nationalism in the modern sense is an exotic plant imported from the West. The writings of Western liberals and the example of Western democratic procedures, the influence of the Theosophical Movement in restoring respect for India's traditional philosophies and culture, the literary revivals in the indigenous languages and such religious movements as the Arya Samaj, all played their part in arousing national pride and faith in India's mission.

The Indian National Congress, formed in 1885 and now the party in power in the Indian Republic, led the freedom movements in which all communities participated, its policy, to the country's credit, taking its colouring from the doctrine of non-violent non-co-operation preached by Gandhiji. After many vicissitudes and struggles, independence came, though at the cost of the vivisection of the cultural and economic unity in diversity that was India. The disturbances

that followed partition, and the mass transfers of population that resulted, have made things more difficult for both countries. The question of Kashmir finally settled, both India and Pakistan can settle down to the fruitful collaboration which means potentially so much to both.

Factors Conditioning Prosperity

We have considered rather cursorily the outstanding features of the situation in which the co-operative movement, its achievements and its possibilities, must be considered. Let us analyse in somewhat greater detail some of the factors conditioning a sound national economy for the nations of India and Pakistan no less than formerly for undivided India.

One of the most serious of these at the moment, though by no means necessarily a permanent obstacle to progress, is the major dependence upon a single industry, already discussed. The Royal Commission on Agriculture, reporting in 1928, took a rather pessimistic view of the possibilities of increasing the proportion of the population supported by industry, holding that the pressure on the land could best be relieved by the diversification and intensification of agriculture.[75] That there is room for such improvement is obvious. The average yield per acre of paddy is 961 lb. as compared with 1,240 lb. in Burma, 3,533 lb. in Japan and 3,333 lb. in Egypt. For wheat, the average yield per acre in India is 586 lb. as compared with 2,436 lb. in the United Kingdom, 1,594 lb. in France and 1,050 lb. in Canada. There are many causes, including soil erosion, deficient rainfall, unsatisfactory cropping systems and lack of good seeds. With better methods of cultivation it is claimed that far greater yields are obtainable, but irrigation projects and other land improvement schemes are required for best results, and these presuppose state undertakings for the former and the availability of capital for long terms at reasonable rates for such efforts as the cultivator himself must make. Reference may be made in this context to the major and minor irrigation projects under the Five-Year Plans.

Apart from the need for improved methods of cultivation, the general wastage of the cultivators' considerable leisure is a serious problem. His three idle months in the year have been well called 'too long a vacation without pay'.[76] Additional sources of income are a great need if his economic position is to be improved.

But neither improvement of the methods of cultivation nor the provision of opportunities for the gainful use of leisure will ensure much greater prosperity to the peasant unless improvement is effected also in the channels of distribution, including not only better transportation facilities but also better marketing methods. The latter are necessary to secure to the peasant a more equitable share in the profits of production, but these in turn cannot hope to attain the greatest possible success until the general level of education of the agriculturists is raised and unless the cultivator controls the disposition of his own crop, the latter depending on the adequate solution of his credit problem.

Standardization and organization both have to make great strides before the cultivator will have a fair share in the ultimate price of his produce. Price Control Boards for certain products, as visualized in the report on *Agricultural Marketing in India*,[77] may be part of the solution. But the organization of producers for marketing and processing is indispensable to their having a bargaining power equal to that of the strongly entrenched private interests by which distribution is still largely controlled.

A major obstacle to an improved distribution system, as it is to better cultivation methods and to a higher standard of living, is illiteracy. Ignorance invites exploitation by cunning. The inability of so overwhelming a majority to read, moreover, results inevitably in some narrowness of outlook and exaggerated conservatism, though it by no means follows in India that an illiterate man is an unintelligent one. The glaring deficiencies of the country's educational system, however, have surely been responsible in large measure for the rural stagnation which some consider one of the most serious of the present problems. Many writers have dwelt on the apathy and hopelessness of many

an Indian village, whose energetic members have in numbers left for the cities, leaving the masses without their natural leaders. The late Dewan Bahadur Kaji has drawn a picture of the Indian village at its most depressing:

> No recreation facilities, no social amenities .... Streets, tortuous and a trap for the unwary, are drains in the rains .... Sanitation and ventilation are badly neglected and medical aid is sadly absent.[78]

Education can do much to better as well as to brighten the cultivator's lot. Education on the right lines, for example, would certainly help to bring about a healthier respect for all honest labour, and so promote unity among different strata of the population. It might incidentally break down the average Indian's philosophical indifference to the accumulation of wealth, at least to some extent. It would be a disservice to the villager to cause him to substitute for his ideal of contentment with little the common Western concept of happiness as dependent on the satisfaction of an increasing number of wants, but there can be no objection to arousing such legitimate desires as those, for example, for the conditions indispensable for health and a modicum of comfort.

No thinking person with the Indians' good at heart would wish them to surrender their spiritual heritage in exchange for the civilization of the West in its totality, but, just as the West has much to learn from India of philosophy and a spiritual attitude towards life, so India stands in need of the best the West has achieved in the conquest of physical nature. India's task is to discover the middle ground between spurning material comfort and prosperity and regarding them as ends in themselves. If she can find the way to prosperity without ceasing to regard material things as, at best, but means to the end of a deeper and fuller life, the background against which is enacted the perennial drama of soul evolution, she will have laid the world under an incalculable debt.

The average *per capita* income cited is hopelessly inadequate to meet the primary requirements of food, clothing and shelter. As it is not feasible to starve one in three individuals outright, it becomes common practice to cut out

one of three meals required with resulting deterioration in physique and energy.

The Indian Government and the individual proprietor alike find themselves caught in the same vicious circle. The improvement of economic conditions depends in large part on the development of resources. But the prosecution of big irrigation, land-reclamation and transportation projects by the state and of small-scale schemes of irrigation and land improvement by the cultivator alike demand expenditure out of proportion to their present means. The great poverty of the country after centuries of exploitation and the poverty of the average cultivator prevented in undivided India the taking of adequate corrective measures. The need for checking inflation today imposes an additional check on government and personal spending. Much heavier taxation, except of the rich, is difficult without an increase in average individual income. This, at present, affords in most cases barely enough for subsistence and cannot stretch to improvements, however desirable and promising of increased returns.

The housing situation has steadily worsened, due largely, during the depression, to economic reasons and, in the war years and since, to the shortage of materials and to transportation difficulties.

Bad as housing conditions are among the rural population, the industrial workers in the cities are, if anything, worse off. The Royal Commission on Labour reported nearly all workers in Madras, Calcutta, Howrah, and Cawnpore living in single rooms. In the busiest centres the houses are crowded together, ventilation is inadequate, and sanitation neglected.[79] According to an analysis of the housing conditions surveyed by the Labour Investigation Committee of the Government of India (1946) in 14 centres in India, out of 4,710 dwellings covered by the Survey, 1,642 were provided by employers and 3,068 were owned by private landlords. The majority of dwellings in each category consisted of only one habitable room. In some centres, one-room dwellings constituted more than 90 per cent of the dwellings. The Committee expressed the view that 'our

cities have been growing in the most undesirable manner with the result that housing conditions of industrial workers have not improved in spite of the recommendations of the Royal Commission'.[80] The magnitude of the problem is shown by the fact that the estimates of the needs of housing in urban areas during 1951–61 called for the construction of about 8 million houses to make up for the past deficit and obsolescence and to provide for the rise in the urban population. About 50 million houses in the rural areas were also required to be replaced by new dwellings or substantially improved. The deficit at the end of 1961 has been estimated at 5.5 million houses in the urban sector, excluding the needs of existing houses which had deteriorated and about 1 million slum dwellings.

Pessimists have pointed to defects, inherent or recently acquired, as conditioning factors in mass betterment. The morale of the Indian villager has been traditionally high, but it has not been strengthened by such influence as has percolated down to the villages from the Western contact. The force of custom and of public opinion, which formerly exerted some control over moneylenders' practices, is claimed to have weakened. The centuries-old harmony between the representatives of different religions in the villages has been disastrously disturbed by partisan propaganda. The announcement that the country is now free has conveyed to certain simple minds a quite exaggerated notion of the liberty of individual action which national freedom implies. The hordes of ticketless travellers in recent years are an expensive but relatively innocuous expression of the widespread sense of old restraints removed. There have been, too, reports of black marketeering and of corruption, perhaps on a petty scale, but this may not involve the rank and file of the villages or the factories and we may feel some confidence that the sterling qualities which have been thousands of years in the building cannot have been permanently undermined overnight.

One factor which helps keep the masses poor is the force of custom, social and religious. The orthodoxy of the majority demands regular ceremonies for the dead, etc.,

involving payment to the priests which the poor villager can ill afford. And social tyranny is no less rigid. The amount which custom demands be spent in connexion with a wedding in the family is commonly altogether out of proportion to the income of the cultivators or the factory workers, and a not inconsiderable portion of the debt burden has been incurred for such unproductive but religiously or socially dictated outlays.

Unnecessary borrowing apart, however, poverty being so general and income so frequently inadequate to cover the cost of barest subsistence, credit becomes a vital necessity and it is not surprising that indebtedness has been a major problem alike of the agriculturist and the industrial worker. The Central Banking Enquiry Committee in 1931 estimated that rural indebtedness alone amounted to Rs 900 crores.[81] The All-India Rural Credit Survey conducted in 1951–2 referred to the trend in indebtedness since the time of the investigations connected with the Central Banking Enquiry Committee. The survey indicated the maintenance of a high level of debt throughout the thirties as compared to the level in 1929–30. During the period of the Second World War, there was no marked increase in the money burden of debt even on the smaller cultivators. At the same time, the real burden of past debts was reduced to a great extent owing to 'the changed value of money'. Indebtedness in the period immediately after the war 'appears to have showed a tendency towards an increase. Subsequently also the trend appears to have been in the upward direction. . . . The trend in indebtedness in the period 1945–52 is not fully known for lack of appropriate data. It would, however, appear that towards the latter half of the war period, roughly after 1943–4 and up to 1946–7, costs were catching up with prices and there was an evidence of stabilization of position which meant no further rapid decrease in debt for all and perhaps an increase in debt for some. This stabilization was disturbed by the large spurt of prices after decontrol and the agriculturist had another time in which he could improve his financial position. This was followed by another brief period of

comparative stability till the Korean war boom of 1950–51. The year of the survey first saw, in a period of over ten years, a sharp decline in agricultural prices and it also probably recorded on that account a higher increase in indebtedness than in any previous year for a long time past.'[82] The proportion of mortgage debt to total debt as obtained in the Rural Credit Survey was however lower than that estimated by the Provincial Banking Enquiry Committees.

It is normal for the agriculturist to borrow. As the Nicholson Report of 1895 put it:

> The lesson of universal agrarian history is that an essential of agriculture is credit. Neither the nature of the land-tenures nor the position of agriculture affects the one great fact that agriculturists must borrow ... due to the fact that an agriculturist's capital is locked up in his lands and stock. ... Hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness.[83]

The debt burden in India would not have become insupportable if the country had been prosperous and the debt had represented borrowing for productive purposes only. Neither of these provisos has been met, however, and the load of debt has undoubtedly been one of the most serious obstacles in the way of economic advance. The problem has become more serious in recent years. In an investigation of agricultural indebtedness in 312 Hyderabad villages in 1937, Shri S. M. Bharucha found that in the preceding fifteen years over one-tenth of the occupied area had passed out of the hands of the cultivators and into the possession of moneylenders and village officers.[84] He reported it a common practice for the *sahukar* in Marathwada villages in that state to get the illiterate, heavily involved debtor to execute two documents, one a mortgage deed with possession in favour of the *sahukar* and the other an agreement to cultivate the land as tenant. The victim might not know for years that his position was that of tenant-at-will and not owner.[85] According to the *Rural Economic Enquiries in the Hyderabad State*, the total debt for all rural families in 1949–50 was Rs 46·21 crores. The *Report of the Economist for Enquiry into Rural Indebtedness* in

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the Madras State indicated that the total rural debt of the state declined from Rs 272 crores in 1939 to Rs 218 crores in 1945. The major part of the benefit accrued to big landholders, followed by medium and small landholders. The debt of tenants and labourers recorded an increase. The Famine Enquiry (Woodhead) Commission (1944–5) called for data from the states as regards the extent to which agricultural indebtedness had been reduced owing to the rise in agricultural prices during the Second World War. No state could give any precise estimate of the reduction. The replies indicated the following qualitative estimates made by governments: 'Considerable reduction in Assam, Bengal and the Punjab, small in Bombay and Madhya Pradesh and noticeable also in Bihar, Madras and Uttar Pradesh. In the case of Orissa, it was reported that the substantial cultivators were able to liquidate some of their debts'.[86]

For the causes of the peasants' indebtedness we must look partly to the weaknesses already mentioned in the economic structure and partly to the uncertainties inherent in an industry dependent to so great an extent on climatic conditions, but largely, too, to such credit abuses as that mentioned above, and the high interest rates which have been so general. The Royal Commission on Agriculture reported that uncontrolled usury was one of the worst evils from which the Indian cultivator had to suffer.[87]

The institution of the moneylender in India dates from very ancient times. His function has been indispensable and the disrepute into which he has fallen in recent years is due to the malpractices which have come to be associated with its exercise. It would be a mistake to picture moneylenders as a separate and distinct class. Their ranks merge almost imperceptibly into the general population, since so many non-professionals with a little spare cash engage in moneylending, at least as a subsidiary occupation.[88] The moneylender, known in different parts of the country as the *sahukar* or the *mahajan*, is frequently the peasant's merchant and broker as well as his banker, supplying him with all he needs for living and agricultural purposes and selling his produce for him. His interest rates vary from state to

state and within the same state, but they are uniformly high.

The interest rate of 37·5 per cent was usual in Bengal before the co-operative societies came.[89] Where interest is levied in kind it is consistently higher than the prevailing money interest, sometimes as high as 50 to 100 per cent. A mortgage is often taken on the borrower's crop or, where the sum is large or the term long, on his land,[90] though in some states, for instance Punjab, the Central Provinces (now Madhya Pradesh) and the United Provinces (now Uttar Pradesh), agriculturists are protected from the permanent loss of their land to a creditor who is not himself a cultivator, mortgages held by non-agriculturists lapsing automatically at the end of twenty years without any payment on account of redemption.[91]

The collection methods of the Pathan, the migratory usurer from the north-west, are particularly objectionable. He relies upon intimidation and sometimes violence for the recovery of his loan and his usual victims are afraid to make complaints.[92] The law in some states permits imprisonment of male debtors at the creditor's expense, in the execution of a decree—six months for more than Rs 50 and six weeks for smaller sums. The penalty is seldom invoked, but the threat is a powerful weapon for the moneylender.[93]

The Rural Credit Survey (1951–2) indicated that the proportion to the total borrowings of cultivators from moneylenders generally of such of those borrowings as bear a rate of interest of 25 per cent or more was as high as 70 per cent in Orissa, 49 per cent in Tripura, 40 per cent in West Bengal and in Himachal Pradesh, 29 per cent in Uttar Pradesh and 27 per cent in Bihar. The Survey Committee drew the conclusion that 'moneylending legislation has had little effect on what the cultivator is actually charged as interest by the moneylender'.[94]

The risk is often great and the losses are heavy, so that moneylenders' rates are perhaps not wholly indefensible. It was once estimated that Indian moneylenders probably do not average over 15 per cent a year on their capital.[95]

Not so the Kabuli moneylenders operating in Hyderabad in 1937 who were said to be more than doubling their capital annually, making small loans to the poorest people at an interest rate of 75 to 150 per cent per year.[96]

The credit problem of the industrial workers is quantitatively smaller than that of the agriculturists only because of the greater numbers of the latter. The Whitley Labour Commission estimated that two-thirds at least of families or individuals in most industrial centres were in debt, and had been 'impressed by the number of cases in which an industrial worker is obliged to stint himself and his family of necessities to meet interest charges without the faintest prospect of ever being able to reduce the principal'.[97] The Labour Investigation Committee, whose report was published in 1946, found that 63 per cent of the workers' families were in debt in Bombay City. In Sholapur, the percentage of families in debt was as high as 84. The Committee quoted the Family Budget Enquiry made in Madras in 1935 according to which 90 per cent of the families were in debt.

In most states, laws have been enacted to reduce the agriculturist's debt burden to bring it within his repaying capacity, the Debt Conciliation Boards working generally on a voluntary basis. The Bombay Agricultural Debtors' Relief Act, 1939, however, provides for the compulsory adjustment of debts of cultivators not exceeding Rs 15,000. The hesitation of a debtor to apply for relief lest he should antagonize the moneylender was taken into account and if the debtors did not apply to the Debt Relief Courts, the creditors had to do so within a stated period on pain of the debt being deemed to be discharged.[98] Measures for the compulsory reduction of debts of agriculturists were also enacted in other states. Some of the features of such legislation were: (1) reduction by the empowered courts of principal and interest in accordance with certain scales; (2) fixing of the maximum rates of interest chargeable on outstanding debt and, in some cases, on new loans; (3) regulation of mortgages; (4) protection of the agriculturist against certain legal proceedings, and (5) exemption of specified

items of property from attachment. The Agricultural Finance Subcommittee deplored the absence of systematic inquiries into the working of the Debt Relief Acts.[99] The Rural Credit Survey Committee mentioned that the extent of reduction varied from about 19 per cent in Travancore to about 76 per cent in Saurashtra and that, broadly, in most Part A States, debt adjustment involved reductions ranging from 40 per cent to 60 per cent and in Part B States, from 20 per cent to 40 per cent.[100]

Paralleling the debt relief legislation went attempts in the thirties to regulate moneylending by fresh legislation or by amendments to the Usurious Loans Act of 1918, which the Royal Commission on Agriculture had asserted in 1928 to be practically a dead letter in every province.[101] The main provisions of moneylending legislation relate to (1) licensing and registration of moneylenders, (2) maintenance of accounts in prescribed forms, (3) furnishing of receipts and periodical statements of accounts to debtors, (4) fixing of maximum rates of interest chargeable, (5) protection of debtors from molestation, intimidation, etc., (6) exemptions from attachment of items of debtors' property, (7) regulation of mortgages, and (8) penalties for infringement and machinery for enforcement.[102]

Special reference may be made to the provisions regarding rate of interest. These varied from state to state. Compound interest was prohibited in the moneylending legislation in Assam, Bihar, Hyderabad and Coorg. The maximum simple rate of interest which can be charged on secured loans varied from 5½ per cent in Madras (under the Agriculturists' Relief Act) to 12 per cent in Madhya Pradesh and Uttar Pradesh. The lowest rate for unsecured loans was 5½ per cent in Madras and the highest is 24 per cent in Uttar Pradesh. Several of the moneylenders' Acts embody the rule of *damdupat,* that is, the total of interest paid or payable should not exceed the principal. In most states, the maximum rate merely limits what the moneylender can recover through a court of law. In some states, it is a punishable offence to charge more than the maximum rate.[103]

The Bombay Banking Enquiry Committee held that the working of one of the earliest of the Acts directed against usury, the Dekkhan Agriculturists' Relief Act of 1879, had shown that the more restraints were placed on a moneylender, the worse became the borrower's position.[104] Honest moneylenders had been driven from the field and such practices had been encouraged as taking bonds from illiterate debtors for much larger amounts than they had received.[105]

Moneylenders generally have exhibited a cleverness worthy of a better cause in evading the provisions of the new Acts, though some of the smaller moneylenders are reported to have found the restrictions so burdensome that they have wound up their business, thus restricting the credit available to the agriculturist.[106] It is generally agreed that the moneylender, still the chief supplier of credit to the cultivator, is a necessary evil in the present credit structure, and his harassment beyond a certain point may react disadvantageously upon the agriculturist, as did the well-meant and otherwise beneficent debt legislation, in so far as it reduced the borrower's creditworthiness in the moneylender's eyes.

The Bhavnagar Khedut (Villager) Debt Inquiry Committee brought out in its report that the freedom from debt of 55 per cent of the villagers in that state did not necessarily mean prosperity. 'Debt follows credit', and the debt-free villagers were so because they were so poor and their credit was so low that no moneylender even would lend to them.[107]

The Royal Commission on Agriculture remarked that 'the worst policy towards debt is to ignore it and do nothing', and there can be little doubt that the following of that policy by the Government of Bihar, which had neither land mortgage banking nor a debt conciliation programme through the depression years,[108] contributed materially to the serious plight to which the co-operative movement came in that state.

Important as such ameliorative measures as described are, however, attacks upon indebtedness alone are futile in the

long run. As pointed out by the Reserve Bank, where debt is a chronic feature of the farmer's life

it can only mean a permanent disequilibrium between his income and expenditure. The disease thus is the deficit budget and if the symptom—debt—is to be removed, the causes of the deficit budget must be treated first.[109]

The rise of agricultural prices in recent years has had a marked ameliorative effect in most of the peninsula. An analysis of this effect upon cultivators in the Lyallpur District of Punjab in 1947 showed that more than half the debts they owed to co-operative banks had been paid off during the preceding four years, while the demand for fresh loans had declined substantially.[110]

There has, of course, been a parallel though not perhaps equal rise in the prices to cultivators of other necessities of living and of cultivation, and those with a small surplus production have benefited relatively little by the higher prices of agricultural products. The *Report of the Economist for Enquiry into Rural Indebtedness* in the Madras State, published in 1946, expressed the view that the war-time rise in prices had been more beneficial to the big than to the medium landholders while the small landholders 'have actually suffered'.[111] The Agricultural Finance Sub-Committee (1945) stated that even though the war-time rise in prices led to a general improvement in the position of the agriculturist producer, the incidence of the total effect was very uneven, the differences being regional as well as between classes of producers within the same region. The Rural Banking Enquiry Committee (1950) indicated that while debts of large and medium landholders had been substantially reduced as a result of the rise in agricultural prices during the Second World War, those of small landholders, tenants and labourers had not been reduced significantly.

The general opinion has been that moneylending legislation has not been effective. The Rural Credit Survey has stated that the data on rates of interest by themselves 'are sufficient to indicate the general evasion of legal regulations relating to private moneylending...throughout the country'.[112] It is also held that debt relief and moneylending legislation has led to a shrinkage of credit.[113] This implies

the need for an effective institutional system of rural credit such as could be provided by a well-organized system of co-operative credit.

It took a long time and many and sometimes disastrous experiments to bring home the lesson that an all-sided approach to the small man's difficulties was required. It was the credit problem which loomed largest when Sir Daniel Hamilton declared that 'the power which stands in the way of India's development is the power of evil finance...the want of a banking system for the people. The people have many bankers but no bank'.[114]

It was the widespread sharing of that conviction that prompted the launching of the co-operative movement in India as a credit movement, and for long determined its course.

CHAPTER II

CO-OPERATION—GENERAL AIMS

NUMEROUS definitions of co-operation have been attempted. Two good ones are Sir Horace Plunkett's 'Self-help made effective by organization',[1] and Mr Hubert Calvert's 'Co-operation is a form of organization wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of the economic interests of themselves'.[2]

In its broadest sense, co-operation may be defined simply as voluntary association in a joint undertaking for mutual benefit—admittedly a lower ideal than a joint effort directed at the common good, but a long step in advance of mere self-seeking. Co-operation is rooted in a common recognition by the participants of the desirability of improving their condition and general agreement among them as to how that improvement can best be effected.

A former Bombay Registrar, Shri V. S. Bhide, has said:

> Co-operation represents a happy mean between the forces of extreme individualism on the one hand and socialism and communism on the other. It stands for individual rights tempered by considerations of justice, equity and fair dealing as between man and man, and its one great aim is to prevent the exploitation of the weaker by the stronger party.[3]

Co-operative societies differ, at least in theory, from agricultural banks and loan socicties in that 'honesty and sense of moral obligation are substituted for material assets'.[4]

Dr L. P. Jacks has called co-operation 'the most difficult and beautiful art in the world'. Two things are indispensable to any art—vision and technique. As in all arts, the effective expression of co-operation depends even more upon vision than upon technique, important as are the forms of organization and the operating methods. From this standpoint Shri V. L. Mehta's definition is more satisfactory than any of those given above:

> Co-operative credit is only one aspect of a vast movement which promotes the voluntary association of individuals having common economic needs

who combine towards the achievement of the common economic end they have in view and who bring into this combination a moral effort and a progressively developing realization of moral obligation ...[5]

Co-operation there has always been or there could have been little, if any, human progress, but for the beginnings of modern co-operation as a formal movement we have to go back only to the first half of the nineteenth century, when Robert Owen formulated its philosophy.[6] In England the outstanding development has been consumer co-operation, starting with the spectacularly successful venture launched in 1844 by a handful of weavers, the 'Equitable Pioneers of Rochdale', with their sound principles of one man, one vote, sale at market prices and division of profits among shareholders on the basis of the extent of their patronage.

Consumer co-operation has been important also in Sweden, in Holland and in numerous other countries. In the U.S.A., as in the pre-war Baltic countries and in Denmark, co-operative marketing has been a leading development. Denmark has been transformed by co-operation from a country with tenant farmers in the majority to one with over 97 per cent of its farmers land-owners.[7] Iceland is perhaps the most highly 'co-operatized' country with most of its business co-operatively organized.[8] Co-operative insurance societies have been popular in France and Belgium,[9] and co-operative land consolidation has long been important in Sweden.[10] In Hungary the co-operative banking movement was the leading credit institution in the country.[11]

Most significant for early Indian co-operative developments were the schemes for co-operative finance which originated in Germany and Italy. The German pioneers, Herr Schulze, mayor of Delitzsch, and F. W. Raiffeisen, burgomaster of a group of villages around Neuwied, working independently, embodied their ideas in co-operative organizations at about the same time. Both began with individual effort to relieve distress in their respective districts, and both came to the conviction that lasting improvement must depend on the people themselves. In 1849 Schulze

founded a Friendly Society with the object of relief in sickness and a shoemakers' association for raw material purchases. His loan society was formed in 1850 with ten members, all artisans, and remodelled two years later as a self-supporting institution with capital and shares. Raiffeisen started a co-operative society in 1848 to distribute potatoes and bread to the poor at Weyerbusch (Coblenz), and in 1849 a loan society for the help of small farmers. The members of the latter were rich philanthropists who sold cattle to farmers on easy terms. Not until 1862 did Raiffeisen found at Anhausen a co-operative credit society of which borrowing farmers themselves were members.[12] Raiffeisen's activities were chiefly for poor peasants; Schulze's for artisans and small tradesmen.[13] A parallel development was the Luzzati People's Banks of Italy, which had limited liability, whereas the German societies did not.[14]

Besides joint and unlimited liability, other features of the Raiffeisen societies, which served as models for the Indian rural credit societies, were a closely restricted area, gratuitous service on the managing committee, allocation of net profits to an indivisible reserve, limitation of loans to members and reliance on personal rather than real security.[15]

As we shall see, the agricultural credit societies of India have departed from this pattern in some respects, but credit still dominates the Indian co-operative scene, though diversification of the co-operative effort is proceeding fairly rapidly.

CHAPTER III

THE MOVEMENT IN INDIA

Early Steps towards Co-operation

No consideration of the co-operative movement in India can lose sight of the government leading-strings. India is not unique in having had the original impetus to co-operation come from the government or from government officials, or in having the movement receive government encouragement and even support, but there has been in India a degree of dependence upon official initiative, direction and control that is probably without parallel. As Sir Horace Plunkett put it in his evidence before the Royal Commission on Agriculture: 'It is not a spontaneous growth but a government policy.'[1] He wrote also:

> The distinction between co-operation imposed by the government and necessarily supervised, regulated, restricted and controlled, on the one hand, and co-operation promoted by voluntary initiative and sustained by the co-operative spirit, which insures the loyalty of the members, on the other hand, cannot be over-emphasized.[2]

While the co-operative society as we find it in India is not native to the country, interdependence or co-operation is the very key-note of the Hindu family, 'joint in food, worship, and estate', and of the traditional village organization, under which, for example, cane cultivators frequently own one or two cane mills together which they take turns in driving with their bullocks.[3] An old Indian work, the *Arthasastra* of Kautilya, provides:

> Whoever stays away from any kind of co-operative undertaking shall send his servants and bullocks to carry on the work, shall have a share in the expenditure but none in the profits.[4]

Ancient India had craft guilds, with banking a feature of their activities.[5] They are referred to in the *Vedas*,[6] as well as in *The Laws of Manu*.[4]

Some of the types of unofficial indigenous co-operation found in Punjab in modern times were described by Sir Malcolm Darling in his *Rusticus Loquitur*. There, as

doubtless in many other sections of the country, two to ten peasants frequently join for a year to cultivate a given area in common, dividing the produce after each harvest in proportion to the labour and bullock-power supplied by each. These yearly partnerships, called *lána*, are often renewed year after year. Sometimes a number co-operate in the repair of roads or the herding of cattle and, more often, a number of peasants have drinking-wells in common or employ a common watchman to protect their crops against monkeys.[7]

The Madras Presidency, even before the movement was officially launched, had organized co-operative undertakings in the form of the indigenous *nidhis* or mutual loan associations not unlike the provident fund and friendly societies of Europe.[8] In spite of numerous failures due to fraud, ignorance, unsuitability of the law and absence of supervision, these achieved considerable success,[9] and were imitated in the United Provinces, now Uttar Pradesh, in Punjab, and in Bengal, under semi-official auspices. In 1901 there were over 200 *nidhis* with some 36,000 members and a subscribed capital of more than two crores of rupees. Their clients were drawn from a more highly educated and advanced class than the agricultural population,[9] and they persisted even after co-operative societies were developed for the latter, but as mere financing bodies, not concerning themselves with the objects of loans or with their members' thrift or indebtedness. Among their characteristic features are the limitation of operations to members, insistence on punctual payment, under penalties, of a monthly instalment towards the share capital, and dissolution after a fixed term of years, with distribution of accumulated share capital and profits among the members.[10]

A co-operative society was started in Punjab as early as 1891 for controlling the common land of the village for the benefit of the co-sharers, and functioned until 1922, when the land was partitioned.[11] Another co-operative society, started in that province in 1895, embraced twenty-two villages and hamlets. The fifty or sixty members each contributed Rs 40 to the undertaking; the president

deposited Rs 1,000 and obtained three loans of the same amount, one from the local moneylender and two from the government.[12]

Agricultural banks were introduced in Mysore in 1894, each 'to be an association of landholders on strictly co-operative principles, not for the purpose of earning any profit divisible among its members, but for the purpose of obtaining money by their own united credit and lending it according to the actual requirements of each member to the extent the others have confidence in him'.[13] Purposes of loans might be the ordinary annual requirements of cultivation, agricultural improvements, or debt liquidation. By 1898, 64 of these banks had been started in Mysore. That they did not thrive, the Committee on Co-operation in that state in 1923 ascribed retrospectively to too low interest rates, which over-stimulated borrowing, insufficient incentive to banks to raise local capital, inefficient management, and inadequate supervision.[13] A few village banks were started in the United Provinces under the ordinary company law, and in 1903 there were some beginnings of distributive co-operation in Calcutta.[14]

The first official step towards financing the Indian agriculturist, however, was the scheme for establishing an agricultural bank, put forward in 1882, by Sir William Wedderburn and Mr Justice N. G. Ranade.[8] While it did not receive official favour as a whole, its essentials were embodied in the Land Improvement and Agriculturists' Loans Acts, Act XIX of 1883 and Act XII of 1884 respectively, under which the agriculturist could borrow public money for productive purposes approved by the government, at 3 to 6½ per cent. The former Act permitted borrowing government funds for such improvements as wells and terraces; the latter for short-term employment, as in the purchase of seeds and implements,[15] but all such loans have come to be restricted chiefly to cattle purchase or to land improvement,[16] except in emergencies such as flood or drought.[17]

Under this *taccavi* system each loan has to be secured by

sureties or a charge on the land. The use of the money is supervised by subordinate revenue officials who are expected to insist on accurate accounts and prompt repayment of principal and interest. The ordinary practice is to require repayment of *taccavi* loans after the next main harvest, or, at the latest, after two main harvests,[18] extensions being very rarely allowed.[19]

In Bombay Presidency it was ruled in 1921 that, in villages where co-operative societies were situated, advances under the Land Improvement Loans Act might be made only through them.[20]

These provisions for loans to agriculturists not having met the situation, other plans were considered. In 1892 Mr (later Sir) F. Nicholson was assigned by the Government of Madras to report on the advisability of starting a system of land banks in that province. His exhaustive report in two volumes recommended co-operative societies. It was reviewed by the Madras Government in 1899 and came to the attention of the Government of India the following year, as did Mr H. Dupernex's *People's Banks for Northern India*, based on the successful experiments with village banks in the United Provinces. A committee meeting in Calcutta in December 1900 considered the introduction of co-operative credit societies, reaching the conclusion that societies on Raiffeisen lines might prove suitable.

Following two terrible famines, a Famine Commission, of which Sir F. Nicholson was a member, and which met in May 1901, pronounced the strengthening of the moral backbone of the agriculturist to be the chief means of preventing famines and recommended mutual credit associations.[8] The question was referred to a committee which sat at Simla in June and July 1901, and drafted a bill and model rules.[21] Much further discussion followed before co-operative credit societies were given a legal basis and official endorsement.

The Legislative Basis of Co-operation

The new law passed in 1904 was modelled largely on the

English Friendly Societies Act,[21] but was quite simple and elastic, leaving a wide discretion to the Provincial Registrars to be appointed under it in building up their own co-operative structure.[22] It followed Nicholson's recommendation for the initiating of village banks, that the problems be solved as they came up.[23] The announced aim of the Government of India was 'to lay down the general outlines and to leave the details to be filled in gradually, on lines which the experience of failure or success and the natural development of the institutions may indicate as best suited to each part of the country'.[24]

The chief provisions of the Co-operative Credit Societies Act, which became law on 25 March 1904, were as follows:

1. That any ten persons living in the same village or town, or belonging to the same class or caste, might be registered as a co-operative society for the encouragement of thrift and self-help among the members.
2. The main objects of a society were to raise funds by deposits from members and loans from non-members, government and other co-operative societies, and to distribute the money thus obtained in loans to members or, with the special permission of the Registrar, to other co-operative credit societies.
3. The organization and control of co-operative credit societies in each province were put under the charge of a special government officer called the Registrar of Co-operative Credit Societies.
4. The accounts of every society were to be audited by the Registrar or by a member of his staff free of charge.[25]
5. Rural societies were to have four-fifths of their members agriculturists; urban, four-fifths non-agriculturists.[26]
6. The liability of members of a rural society was to be unlimited, except with special sanction by the local government. Liability of urban society members might be either limited or unlimited.

7. No dividends were to be paid from the profits of a rural society, but the profits were to be carried at the end of the year to the reserve fund, although when this fund had grown beyond certain limits fixed under the by-laws, a bonus might be distributed to the members.
8. In urban societies no dividend was payable until one-quarter of the profits in a given year were carried to the reserve fund.[25]
9. Loans could be made only to members, and usually only on personal or real but not ordinarily on chattel security,[27] although ornaments, the common form of savings of many peasants, might legally be accepted as security.[28]
10. The interest of any one member in the society's share capital was strictly limited.[27]
11. Societies formed under the Act were exempt from fees payable under the Stamp, Registration, and Income Tax Acts.

The local governments for all the presidencies and major provinces soon appointed Registrars with full powers to organize, register and supervise societies.[29] Conferences of Registrars held annually for some years brought certain defects in the Act of 1904 to the attention of the government. That Act did away with the need to secure registration under the Indian Companies Act which, with its complicated procedure and detailed provisions, was unsuited to the co-operative societies,[30] but it gave no legislative protection to societies for purposes other than credit, or to the central agencies, banks and unions, which were gradually coming into existence to finance and supervise the primary credit societies.

These deficiencies were remedied in the Co-operative Societies Act (II of 1912), the distinctive provisions of which may be summarized as follows:

1. Instead of registration being limited to credit societies, any society may be registered 'which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society

established with the object of facilitating the operations of such a society'.

2. Unless otherwise directed by the local government:
   (*a*) The liability of central societies shall be limited.
   (*b*) The liability of rural credit societies shall be unlimited.
3. The requirement of an annual audit is retained, as are numerous other provisions of the Act of 1904.
4. Any registered society may, with the Registrar's sanction, after carrying one-fourth of the annual net profits to a reserve fund, contribute up to 10 per cent of the remaining net profits to a wide range of charitable purposes.
5. Local governments are given considerable discretion in connexion with the making of rules for the working of societies under the Act, including conditions of membership, methods of operation, procedure at general meetings, and provisions for arbitration between members and between members and the committee or officers of the society, such rules to have the same force in the respective provinces as the Act itself.
6. 'Co-operative' may not be used as part of the title of any business concern not registered under the Act, unless it was already doing business under that name before the Act came into effect.
7. Shares or interest in co-operative societies are exempt from attachment.
8. Societies have a prior claim to enforce the recovery of certain dues.

From the first, the local governments were charged with the administration of this Act of 1912, as well as of that of 1904, through the Registrars and the assistants they appointed. The Act of 1912 applied at the time of partition to all provinces, with such local amendments as had been found desirable, except to the provinces which had availed themselves of the authority conferred by the Montagu-Chelmsford Act of 1919 to pass their own Co-operative Societies Acts—Bombay in 1925, Madras in 1932, Bihar and

Orissa in 1935, Coorg in 1937 and Bengal in 1940.[31] While following the National Act of 1912 in most respects, the Bombay Act, which, as amended, may be taken as more or less typical of these, widened the scope of the movement, substituting in its preamble for 'agriculturists, artisans and persons of limited means' as the intended beneficiaries of co-operation, 'agriculturists and other persons with common economic needs' and speaking of 'better living, better business, and better methods of production' as the aims of co-operation. The former change seems, at least legally, to open the door to advantage being taken of facilities provided in part at state expense by some whose economic status does not entitle them to special privileges at the taxpayers' cost. The Bombay Act classified co-operative societies according to their main purpose, as 'resource', 'producers' ', 'consumers' ', 'housing' or 'general'. It also made definite provision for the arbitration of disputes, improved the procedure for liquidation and recovery, provided definite penalties for specified offences of societies, officers or members and raised the optional contribution to charity from 10 to 20 per cent of net profits, after the requirements for the reserve had been met. The Bombay Act introduced the principle of 'one member one vote' irrespective of whether the society was organized on the basis of limited or unlimited liability. The Act also contained provisions for creating a first charge on the agricultural produce of a member in respect of loans taken by him from a co-operative society and also for the constitution of a Co-operative Tribunal empowered to modify awards given by arbitrators. The Act required borrowers to declare their immovable properties and specify those against which they created a charge in favour of the society. A later amendment to the Act empowered the government to bring about amalgamation of societies in a speedy manner. The old Bombay Act has now been replaced by the Maharashtra Co-operative Societies Act of 1960 which includes detailed provisions regarding state aid to co-operative societies and the functioning of land development (mortgage) banks.

The trend of the more recent legislation seems definitely in the direction of strengthening the power of the Registrar, i.e. the role of the state in the co-operative movement. Amendments to the state Acts recommended by the Co-operative Planning Committee, however, besides adding to the liquidator's powers also include provision for primary societies' free choice between limited and unlimited liability, with the right of subsequent change, and the exemption of co-operative societies as far as possible from the provisions of legislation for the relief of indebtedness, the control of moneylenders, etc.[32]

Most of the larger erstwhile Indian States and some of the smaller adapted the co-operative legislation of British India to their special needs, beginning with Mysore, which, in its Co-operative Societies Regulation of 1905, initiated the formation of societies for purposes other than credit.[33] The formal launching of the co-operative movement in Hyderabad, Indore and Travancore dated from 1914; in Gwalior from 1918. Baroda, Bhopal, Cochin, Kashmir and a number of other states had their own Co-operative Societies Acts or Regulations. The Government of India appointed a committee in June 1956 to evolve a simple law to govern the working of co-operative societies and facilitate the co-ordinated progress of the movement. The committee prepared a Model Co-operative Societies Bill and Rules and model by-laws of important types of societies. The Model Bill included provisions for facilitating state partnership in co-operative societies. The committee expressed the view that the time was opportune for revising the Co-operative Societies Acts in force in the various states with a view to bringing about as large a degree of uniformity as possible. The committee recommended that every state should enact a new law or modify its existing law on the lines of the Model Bill suggested by it. The committee noted the tendency in some states to confer the powers of the Registrar on persons who worked independently of the Registrar. It stressed that for co-ordinated control and unified direction, the co-operative financing agencies and the societies financed by them should be under the adminis-

trative control of a single authority. Persons on whom the powers of the Registrar are conferred, should work under the control of the Registrar.

In November 1958, the National Development Council stressed that the restrictive features of existing co-operative legislation should be removed and co-operative laws and rules modified so as not to impede the development of co-operation as a popular movement. Following this, the Government of India advised the state governments in May 1959 to appoint committees of officials and non-officials to examine the whole question of law, rules, procedures, causes of delay and allied matters, and to submit detailed proposals to the state governments. A few state governments have appointed such committees.

TYPES OF CO-OPERATION IN INDIA

*Distribution Trends for Primary Societies**

The earliest launched of India's co-operative undertakings in this century, credit societies still dominate the picture, agricultural credit societies far exceeding, both in number of societies and in membership, though not in working capital, all other types of co-operative organizations.

The Act of 1904 arranged for starting urban and rural banks simultaneously, but instructions were issued to the authorities to make the latter their first care.[34] For several years they gave them almost exclusive attention. Primary agricultural credit societies numbering 215,081 at the end of June 1962, constituted the largest single group of societies in the country.

The statistics for working capital and loans advanced for primary agricultural credit societies compared with those of non-agricultural credit societies, however, give a different picture of the relative importance of the primary agricultural credit societies in the movement. Thus, in 1961-2, the 215,081 primary agricultural credit societies had a working capital of Rs 325·33 crores and issued loans to the extent of

* See Tables, pp. 444-8.

Rs 256·68 crores. On the other hand, the 12,477 non-agricultural credit societies had a working capital of Rs 164·93 crores and advanced loans totalling Rs 161·63 crores. A common feature, however, is the concentration of both agricultural credit and non-agricultural credit societies in a few states. The co-operative movement, especially in the eastern region, is weak and special steps are being taken to put some life into it.

The variation is naturally wide between individual states, but, while exceptions might be cited, the generalization seems warranted that in some where the co-operative movement has been weakest a conservative tendency has been apparent which has made them cling to a single line of attack for a many-faceted problem, inadequate as credit alone had been found as a master-key to prosperity.

The signs point to a rapid spread of co-operation in the urban areas, which is excellent, in so far as the advance is on sound lines. It was, for instance, suggested at a conference held in Calcutta in December 1963 that the number of co-operative societies in the city of Calcutta and its suburbs had increased to such an extent that special arrangements might be required for financing the societies. The ease of propaganda, organization, supervision and inspection is naturally so much greater in the urban areas than in the widely scattered villages that a warning note perhaps needs to be sounded, lest the co-operative movement in spreading its benefits to urban areas neglect in any measure the field for which it was first introduced in India.

The ancient Tamil sage Tiruvalluvar called the tiller of the soil 'the axle-pin of the revolving world',[35] and Thomas Jefferson in the early nineteenth century called the small landowners 'the most precious portion of the state'. In India particularly, with its nearly 560,000 villages in which the vast majority of the people dwell, the urban co-operative societies, important though they also are, must never be favoured at the expense of the illiterate and needy millions of the rural areas.

Happily a growing demand for the registration of more rural societies was mentioned even in 1946. For instance,

the Bombay (now Maharashtra) Registrar's report for 1946–7 referred to this trend. He ascribed it chiefly to the growing popularity of co-operation, partly to the greater need felt for crop finance by cultivators whose debts had been adjusted under the Agricultural Debtors' Relief Act, the benefits of which were extended to the whole province in January 1947.[36] The Registrar's report for 1955–6 referred to the growing popularity of agricultural credit societies which led to the registration of new societies and to an increase in the membership of the existing societies. The report noted that 'the growth of the co-operative movement in the rural areas . . . was satisfactory'.[37]

The credit side of the movement will be of great importance, whatever may be the expansion in other directions. Mr F. B. Wace in 1939 expressed the conviction that 'if the credit movement were to fail it would have a disastrous —indeed probably fatal effect on nearly all other lines of development'.[38]

AGRICULTURAL CREDIT SOCIETIES

The objects of primary agricultural credit societies as defined in their by-laws naturally differ, but all include the borrowing of funds from members or others to be utilized for loans to members, and generally also the promotion of thrift, at least as a pious hope. Where the credit society's by-laws are so sweeping as to provide for its acting as agent for the joint sale of its members' produce and the joint purchase of their agricultural and domestic requirements; for the hiring of implements, machinery or animals to members; the dissemination of information upon improved farming practices; the encouragement of subsidiary industries and the reform of social practices, it brings the society availing itself of the by-laws' sanction in any of these directions into the multipurpose class, in fact if not in name.

The promotion of thrift, as important to the societies' success as to their members' well-being, has been too much

neglected but the need for it is being increasingly recognized. The Madras Committee recommended that school-children be taught thrift, perhaps through small branches in their schools of central banks or well-run urban banks.[39] The weakness of the emphasis on thrift in the past must be accounted a major weakness of the Indian co-operative movement. The item of members' deposits in the working capital of primary societies, however, doubtless bears witness not only to the lack of emphasis on thrift but also to their members' poverty, and perhaps also, in some cases, to their lack of confidence in their society. Deposits of primary agricultural credit societies in 1961–2 formed only 5·4 per cent of the working capital. In 1955–6, this percentage was 8·9.

Thrift has been stressed more in recent years. The Bombay Registrar, for example, indicated in his report for 1946–7 that no more rural 'credit' societies were being registered, but only 'thrift and credit' ones. In his report for 1955–6 the Registrar noted that deposits from members of primary agricultural credit societies (including multipurpose societies) increased from about Rs 85 lakhs in 1954–5 to about Rs 102 lakhs in 1955–6. So far, however, the growth of savings and shares has been incommensurate with the rise in agricultural prices.

Assuming that members' vigilance over the conduct of their society would be proportionate to their individual stake in its success, the Madras Committee on Co-operation (1940) urged the cultivation of depositor members. As long ago as 1939 the Berar Co-operative Enquiry Committee believed it 'advisable to make it clear that co-operation is not restricted in its scope to persons of small means'. The proposal of the Hyderabad Registrar in his report for 1945 that *sahukars* be brought into the co-operative fold[40] has much to commend it, as far as those who have retired as moneylenders are concerned. Their profits have been cut down and the restrictions on their activities have proved burdensome; they have funds to invest; and their business acumen would be of value to their simpler fellow-members. *The Report of the Economist for Enquiry into Rural Indebtedness*

in the Madras State (1946) suggested that it should be made obligatory for all moneylenders in each village or group of villages to become members of the local co-operative society. It is, however, easy to see the reason for the specific exclusion from co-operative societies in the old Cochin State of persons engaged in professional moneylending.[41] The hold of the moneylender on his clients is such that undue influence in the society might well be apprehended from their membership. The Rural Credit Survey Report (*The General Report*, 1954) has given instances of moneylenders having joined co-operative societies and wrecked them in the process. The Report notes that while it would be unrealistic to ignore the moneylender, 'any organic association between him and co-operative credit will bring disadvantage instead of benefit to the medium and small cultivator'.

Current deposits would of course be difficult for village credit societies to handle, but the Madras Committee suggested savings deposits for the better run (A and B class) societies.[42] The interest on small savings would be too small to offer much of an inducement, but it suggested issuing easily negotiable savings certificates for specified amounts or, alternatively, issuing home savings boxes, all to be opened simultaneously to promote the co-operative spirit; also offering education in budgeting and linking the savings with particular objectives. How trifling from the commercial banker's point of view much of this business would be, may be judged from the suggestion that 2 anna and 4 anna savings certificates of different colours would be suitable in some societies! But as an educational effort this may be well worth while.

The Agricultural Finance Sub-committee (1945) recommended exploration of the possibilities of a specific savings programme for anticipated ceremonial expenditure on a reasonable scale, though attempts should be made to create public opinion against extravagant outlay.[43] The Rural Credit Survey Report recommended that, as a rule, only fixed deposits should be accepted by primary agricultural credit societies and current deposits confined to the apex

and central banks. The Report, however, added that in selected instances, primary societies could operate savings accounts and accept deposits for the purpose on behalf of the bank to which they were affiliated, on an agency basis.

The daily collection of a handful of rice from each member is a thrift promotion method reported to have been very successful in Bengal in the days before rationing of food-grains, such rationing being no longer in force.[44] The adoption of this practice, however, on a large scale will present problems of storage and accounting. Further, it is a good axiom that grain transactions and cash transactions should not be mixed together in a credit society.

Compulsory savings were required from Baroda primary agricultural credit society members; at the end of 1944–5 these totalled Rs 5,56,000. The gradually won popularity of the Mysore Small Savings Scheme[45] shows the possibilities of an intensive drive of propaganda and publicity.

Some co-operators hold the view that societies should encourage their members to go on adding to their share-holdings every year, as long as they continue to be members of the society. Ten-year-old Delhi societies were restarting the collection of shares in 1945–6.[46] The aim suggested for new as well as existing societies, in Dewan Bahadur K. D. Mudaliar's report on co-operation in Orissa in 1938, that every member be induced to have at least as much as his current needs in a normal year and leave it with the society to borrow when need arises, repaying the loan at harvest,[47] is admirable but hardly realistic for the rank and file of farmers. An alternative suggestion is the assigning to share capital in each member's name of an agreed percentage of the year's profits.

A Provident Fund scheme such as that which was in vogue in Baroda, under which members were allowed to deposit a maximum of Rs 10, the society contributing 50 per cent of the amount of the deposit,[48] may be effective in promoting thrift but is obviously suitable only for societies of sound financial standing.

The Rural Credit Survey Report stated that the most effective way of enabling the co-operative agency to attract

savings is 'so to strengthen it that it inspires confidence, and so to extend and diversify its activities ... that local interest and enthusiasm are created'. It recommended the institution of 'mutual help *chit* funds' in primary societies, especially in large-sized societies. The Report also suggested compulsory contributions from members to share capital, especially for the purpose of retirement of state or state-derived capital in co-operative institutions. The *Report of the Committee on Co-operation in Madras* (1955–6) noted that the amount of the loan given to a member was related to the number of shares held by him. The amount which the member was thus compelled to invest in the society was not looked upon by the member as a way of savings. The committee recommended in this context that share capital should not be allowed to be adjusted to the balance of the loan as usually happened; the outstanding loan should be collected in full.[49] The Committee on Co-operative Credit (1960) stressed that the share capital held by a member in his society occupies an important place in the system of co-operative credit. This committee has recommended that individual members should be required to contribute to the society's share capital in a certain proportion of their borrowings.

Desirable, moreover, as is the inculcation of the habit of thrift, fairness to the small agriculturist and the small city worker demands facing certain facts. In the first place, primary co-operative societies are far from offering in all cases a gilt-edged investment opportunity. The mortality among them has sometimes been high and when a society comes to grief, members' savings must naturally receive consideration only after those of non-members and the society's other obligations. If diversification of investments is safer for the large investor, it seems hardly fair to encourage the small one to put all his eggs in one basket.

Also, beneficial as saving is in normal times and important as it is to check inflation, as long as prices continue to rise the value of money locked up in unproductive savings will continue to fall. A saved rupee will buy less tomorrow than it would have bought today. There must be saving, but all

should save, as a patriotic duty. It is not fair to put such risk as there may be especially upon the shoulders of a group, and that neither the most prosperous nor the best informed. To encourage primary society members in investments which may involve a disproportionate share of sacrifice is to incur an unenviable responsibility.

Membership

The minimum initial membership for a primary society is ten, and the Registrar may dissolve any which fall below that number. The general average membership in primary agricultural societies was 41 in 1912–13, 34 in 1929–30 and 37 in 1945–6. In 1955–6 the average membership of a primary agricultural credit society was as low as 49 over the whole of India. There has been some improvement lately. For instance, the all-India average for membership of primary agricultural credit societies was 91 in 1961–2. Even this is a low figure. Unless the membership of a primary credit society is large enough to give it an adequate volume of business, it cannot function as a viable unit. It goes without saying, however, that the membership should not be so large and unwieldy that the society loses its co-operative character.

The Saraiya (Co-operative Planning) Committee considered the small size of the primary unit a limitation to progress. It recommended 50 as a minimum and such an area as would permit adequate business and yet efficient supervision and effective control.[50] More recently, the Rural Credit Survey Report has underlined the importance of organizing large-sized credit societies which could function as economic units and provide efficient credit service. Both too large and too small membership is disadvantageous. Where a village society has 600 members, as was the case in old Travancore,[51] or, as in one Orissa society several years ago, as many as sixteen villages were included in a single society, the accurate knowledge of each other's circumstances and character may be sacrificed, as well as the check afforded by fellow-members' scrutiny of the uses to which loans are put. Several areas offer the opposite extreme of

societies confined each to a small hamlet dominated in most cases by the village headman, which may mean that sight is lost of the democratic spirit of the movement and that *benami* loans (applied for on behalf of someone else) are common.

The Fifteenth Conference of Registrars maintained that membership in the primary society should be open to all persons residing in its area.[52] The Rural Credit Survey Report recommended the right of appeal by a member against non-admission, in the context of its suggestion that the co-operative credit society should endeavour to cover as large a proportion of agricultural producers within as short a time as possible. It is good to guard against an exclusive spirit, but there must be some protection against notoriously improvident or untrustworthy individuals and wilful defaulters who may have had—in the gruesome phrase of an investigator of the movement in one state—to be 'dismembered'. The members of a society with unlimited liability must have a voice in the admission of their fellow-members. It matters very much whom you are roped with for scaling the co-operative peaks.

A rule under the Madras Co-operative Societies Act prohibited the admission or continuance in membership of persons convicted of certain offences.[53] Orissa had the provision that if one-fourth of the total number on the rolls of a society did not object to the admission of any prospective member he could be admitted at a general meeting.

Members in a primary credit society must share a geographical, social or occupational status. The Maclagan Committee stated in 1915 that mixed societies, where tried, had not been a success and that the deliberate mixing of occupations was not to be recommended.[54] Separate societies for special groups have since come to be generally recognized as undesirable in general, though as the Mysore Committee on Co-operation remarked in 1936, some of the communal societies have worked satisfactorily. The instance comes to mind of the Sulemani Co-operative Society at Baroda, confined to members of that community, and its fine achievement in social reconstruction and in giving a new

outlook on life to the women of the community particularly. Shri Azim Tyabji, one of the enthusiastic supporters of that co-operative effort, defended its communal character not only on the strength of its success but also on the principle that it is by fostering each unit that the larger unity can be achieved.

The Madras Committee on Co-operation deprecated the formation of societies on a sectional or communal basis, as being opposed to the basic principles of co-operation. 'It is the common economic interests rather than community or caste that should be the bond.'[55] Or, as the Travancore Committee finely put it in stating that no communal societies should be registered in future but that all should be open to all communities, it is 'also one of the aims of a co-operative society to build up true citizenship with the help of a community of economic interests'.[56]

The same objection applies to the formation of separate societies for ex-service personnel. The sooner the ex-soldiers find their place in the common economic structure, the better for them and for all.

It may be mentioned that in the past communal feeling within a society of mixed membership had been a handicap in Punjab,[57] but that seems a difficulty easier to overcome than the permanent divisions formed by communal societies.

The attitude towards prospective members ought to be cautious and critical, but the tendency, marked in its incipiency by the Maclagan Committee in 1915,[54] to make societies close preserves after they are functioning successfully constitutes failure to pass what has been called the ultimate test of genuine co-operation.[58]

Publicity within the society is necessary so that members may know what they are liable for. It would be highly desirable from the standpoint of the general membership of an unlimited liability society to have restrictions on the alienation of property by individual members, but the Act of 1912 carried none, except the restrictions on the transfer of a member's share or interest in the capital of the society itself.

Instances are not unknown where women are serving as officers in co-operative societies of mixed membership, but

they have been rare, though in Travancore as long ago as 1928 women represented 11 per cent of the total membership of co-operative societies.[59] The Registrar's report for 1955–6 gave the interesting information that there were 12 societies whose membership was confined exclusively to women in the Travancore-Cochin region. They issued loans to the extent of Rs 11,567 and had a membership of 1,516. Punjab has by far the largest number of co-operative societies for women. There were 798 societies for women in Punjab in 1959–60 out of which 525 were thrift societies. The place of women in the movement generally as also the work on co-operative lines among the depressed and aboriginal classes will be considered along with non-credit societies, though credit is of course a factor in connexion with both groups.

Existing debts, of course, ought to be fully revealed before members are admitted to unlimited liability societies, and the society should be notified of each instance of a member's resorting to the *bania* for a loan. The latter, however, can hardly be forbidden so long as a society is unable to satisfy the credit requirements of all members. Where the society can meet all members' legitimate credit needs, the Madras Committee on Co-operation recommended, outside borrowing should be prevented on pain of expulsion.[60]

Obviously no one should be permitted to join more than one society with unlimited liability; doing so would make his backing meaningless in both. The question of divided loyalties has, however, arisen in connexion with membership in both a credit society on a cash basis and a grain bank which, though often operating under limited liability, is equally a credit society. Efforts were being made in Orissa in 1946 to obviate the over-financing of members by amalgamation of the two types of societies.[61] Orissa has since organized a large number of grain *golas*, and recent schemes of the government strongly favour the grain *gola* doing cash business also, in addition to dealing in kind.

The Maclagan Committee expressed the opinion that unlimited liability had been unreservedly accepted by the people. 'It constitutes an important factor in the confidence

reposed in societies both by the central institutions inside the movement and by the joint-stock banks outside it.'

The Bengal Banking Enquiry Committee claimed in 1930 that joint and unlimited liability had been found absolutely essential for agricultural credit and that, 'as a matter of fact, instances in which one member has been made to pay more than his own dues to the society are so very rare as to be utterly negligible'.[62] True, perhaps, for Bengal, but not for all India.

The degree of danger from unlimited liability actually depends largely upon how well the society is conducted. There is normally little danger in a well-managed society, but there is grave risk if the management is slack or reckless, as many a rueful former member of a liquidated society has been made to realize. The real liability, of course, is in inverse ratio to the size of the society's reserve, the steady building up of which is required by all the Acts.

In practice, in a well-conducted society, the members restrict quite narrowly their actual liability, not only by careful selection of members but also by fixing at the members' meeting once or twice a year the maximum sum (exceeded by the committee only at its members' own legal responsibility) which the society may borrow from outsiders, as well as the maximum credit to each member until the next meeting, based on a careful consideration of his assets.

Co-operative opinion was once sharply divided on the question of limited or unlimited liability for agricultural credit societies. Those who favoured limited liability cited the hardship which the enforcement of unlimited liability imposed upon members and claimed that unlimited liability was unsuited to the many places where members from more than one village were necessary to the economical working of a society, and, moreover, that it frightened off prospective members of means who would be assets.

Those who favoured the continuance of unlimited liability claimed that limited liability, because of its higher risk to creditors, would mean that credit would be confined to those who could provide immovable or movable security, thus cutting off the very large number whose assets were their

honesty and their potential earning capacity,[63] and also that it would remove a necessary check upon extravagant borrowing and unproductive use of the loan.[64]

The Gadgil (Agricultural Finance) Sub-committee recommended unlimited liability for credit societies as a rule, while allowing an exception if limited liability was proved to attract valuable elements to the movement in any region, provided that a substantial part of the funds required could be raised through share capital. The liability in such cases would be limited to the value of the shares or a multiple of it.[65]

Shri S. M. Bharucha reported in 1937 that in Hyderabad unlimited liability had not made the members, almost universally illiterate and, he claimed, lacking strength of character, watch each other's transactions jealously, nor had it induced them to see that payments were punctually made.[66]

The Saraiya Committee felt that 'in most provinces unlimited liability has not been very helpful to the progress of co-operative credit. Responsible people were kept out of the movement by it and also it was largely illusory as long as there was no bar on the alienation of property by members'.[67] The Committee on Co-operation in Madras (1955-6) felt that unlimited liability may be replaced by 'guarantee liability', that is, the liability being a multiple of the subscribed share capital of members. The Rural Credit Survey Report recommended that large-sized credit societies should be established on the basis of limited liability, the liability of the members being limited to the value of the shares held by them or, preferably, to a certain multiple thereof.

While it is a pleasant illusion of some high in co-operative circles that unlimited liability has been seldom enforced, this is true only of certain states. Shri S. M. Ikram, I.C.S., was able to say in 1944 that in Bombay, so far as he knew, unlimited liability had not been enforced in any case since 1934, and that he knew of only three cases of its earlier enforcement.[68] The Committee on Co-operation in Madras (1955-6) reported that during 1950-1 to 1954-5, contribution orders as regards unlimited liability were passed,

on an average, in 48 liquidated societies per year, to the extent of about Rs 58,000 per year, involving 273 cases. Actual enforcement was only in respect of 226 cases, the amount involved being Rs 10,800. The amount written off by central banks was, however, higher at Rs 63,000 per year during the same period. I would invite the attention of optimists on this point to the record, for example, in Berar,[69] in Delhi,[70] in Orissa,[71] in Madras,[72] and in the Ambala District of Punjab,[73] where the intensity of coercive measures on a wide scale at certain periods in the past involved great hardship and brought the movement into odium. Though these wholesale executions of decrees were in many cases against individual debtors, the sufferers were by no means all wilful defaulters.

The Berar Co-operative Enquiry Committee (1939), mentioning enforcement of joint liability as 'one of the main causes of the present unpopularity of the movement', and admitting 'that the necessity for the enforcement of this joint liability has arisen mainly on account of the unprecedented fall in the values of land and not through any negligence or dishonesty on the part of the other members', said that Rs 2,29,705 had already been realized in Berar by the enforcement of joint liability against 148 societies and 361 members. It remarked that it was likely that Rs 5,76,705 more would be recovered by its enforcement against 226 other societies and 591 members.

It is all very well to say that, after all, the sufferings which members of co-operative societies have encountered from the enforcement of unlimited liability are not, strictly speaking, the result of the enforcement so much as of bad management of their societies, for which each is partly responsible, and of over-borrowing. These reflections, however, are not probably of much consolation to the villager, inadequately educated in co-operative principles and ignorant of business methods, who has lost his land.

Too often the enthusiasm of honorary organizers or departmental workers has led to the slurring over in propaganda of the risks involved. In other cases, the encouragement of over-borrowing, by the financial institutions seeking

a profitable outlet for their surplus funds, has contributed to a primary society's coming to grief. If unlimited liability is to be retained it is imperative that measures to correct or to obviate these evils shall be taken.

In any case, however essential unlimited liability may be held for credit societies of small cultivators, it seems quite indefensible to retain it when a credit society takes on other functions involving risk, such as marketing (except, perhaps, strictly on an agency basis), purchasing, etc., becoming in effect a multipurpose society though keeping its credit classification.

In practice the trend, though slow, is definitely towards limited liability.* In several states, while unlimited liability is being retained for old societies, many new ones are being registered with limited liability. In 1961–2 out of a total of 215,081 primary agricultural credit societies, as many as 136,682 were organized on the basis of limited liability. Figures showing the comparative strength of limited and unlimited liability societies in some of the states are given below, the data relating to 1961–2:

State	Limited	Un-limited	Total Number of Primary Agricultural Credit Societies
Andhra Pradesh	708	13,874	14,582
Bihar ..	17,361	1,033	18,394
Madhya Pradesh	11,914	8,398	20,312
Madras ..	554	10,549	11,103
Maharashtra ..	18,222	1,258	19,480
Mysore ..	6,247	3,114	9,361
Orissa ..	720	5,826	6,546
Punjab ..	1,920	17,099	19,019
Rajasthan ..	6,611	4,924	11,535
Uttar Pradesh ..	53,962	738	54,700

* See Table III, p. 447.

The Reserve Bank of India proposed several years ago two distinct types of agencies, one an agricultural bank with limited liability, covering several villages and lending to the more prosperous cultivators on ordinary business lines against property or other real security, and the other a real Raiffeisen society with unlimited liability and a limited area, working as a unit for the economic and social rehabilitation of a poor, indebted and backward population.[74] It recognized that the former type would involve the abandonment of the assumptions of co-operative finance. It would have the further disadvantage of favouring and perpetuating economic class distinctions and offering the more prosperous greater freedom from risk. Making credit readily available to them outside the village society would, moreover, deprive the latter of their possible membership and hence lower its credit standing and increase the risk to its members.

It may be recommended alternatively that the possibilities be explored of retaining unlimited liability and a small area for the village credit society, coupled with all necessary safeguards—adequate co-operative education and supervision and perhaps also the Rural Credit Stabilization Fund proposed by the Agricultural Credit Organization Committee in Bombay,[75] to cushion it against disaster from causes beyond its control—and having side by side with it a multipurpose society covering a wider area and organized on a limited liability basis, for all purposes except credit.

Membership in the multipurpose society could be required for all borrowing members of the credit society, and others could be encouraged to join it. All members of the latter requiring credit and representing a fair credit risk could be recommended to join the credit society, which would be the only source of co-operative credit. How well such an insulating of the credit society against risks from other types of activity can work was demonstrated by the Lalitadripur Co-operative Society in Mysore, described by the Reserve Bank in 1937 in its Bulletin No. 2, *Co-operative Village Banks.* The local grain bank, with a membership of 215, representing all the families in the village, was liable only for credit

but had affiliated with it a building branch, a milk supply society and adult education classes and was also doing village improvement work. It had assumed all the work of a village panchayat, arranging for the cleaning and lighting of roads, settling disputes, providing medical assistance, conducting propaganda against the drink evil and in favour of curtailing ceremonial expenditure, and maintaining a library. The members were making separate contributions for the different activities.[76]

The societies with the two types of liability could be linked up as closely as might be found desirable, perhaps with interlocking directorates, but the necessarily speculative nature of certain of the non-credit activities would not risk the members' all. This proposal would obviate also the objections raised to giving special facilities to those who need help less, while avoiding the abandonment of co-operative principles by a society enrolled under its banner. Membership in the multipurpose society with limited liability should be open to everyone who could take one low-priced share.

The recommended linking up of credit and marketing societies, however, demands the efficient operation of both. Unless the co-operative society, with the advantage over private traders of volume sales, is able to give its members as much on the average for their crops, including a bonus for member patronage, as they could get outside, not only is a great strain put on members' loyalty but the question arises of why co-operative marketing at all. Conversely, a credit society on the verge of liquidation will have little to promise in the way of future credit as a reward for the patronage of the sales society members.

The Act of 1912 gives priority to the claims of registered societies against their members or past members over those of all their other creditors, except the state and the landlord, subject to certain reservations exempting shares or interest in the society from attachment. The liability of a past member for the debts of a registered society as they existed at the time he ceased to be a member continues for two years from the date he left the society, and the liability of his estate for the society's debts as they existed at the time

of his decease for one year after that date. It has been very reasonably suggested that in the case of a society under liquidation at the time of a member's death, or of one which goes into liquidation within a year thereafter, the liability of his estate for the society's debts as they existed at the time of his death should continue until the society's affairs are wound up.

When a member dies, his share or interest may be transferred, or its value paid, to the nominee under the society's rules or his heir or legal representative, but the heir of the member of a society with unlimited liability need not succeed, unless he so wishes, to the deceased member's interest and corresponding responsibilities, but may demand payment.

Sources of Capital

The chief source of capital for the movement as a whole is deposits, this item representing, in 1961–2, about 22 per cent of the total working capital of all types of societies, amounting to Rs 1,534·78 crores. The major part of the deposits, amounting to Rs 223·87 crores, was contributed by 'individuals and other sources'. Deposits from co-operative central societies and primary societies came to only Rs 38·06 crores and Rs 67·37 crores respectively. Owned funds (share capital and reserves) formed about 24 per cent of the working capital. Outstandings in respect of loans from the Reserve Bank and the government increased from Rs 8·44 crores and Rs 20·16 crores in 1954–5 to Rs 131·72 crores and Rs 69·06 crores in 1961–2, thereby indicating the substantial dependence of the movement on these two external sources of finance.

At the end of June 1962, the working capital of all primary agricultural credit societies came to Rs 325·33 crores, or an increase by 19 per cent over the previous year's figure. The share capital totalled Rs 68·61 crores out of which Rs 6·81 crores were contributed by the state governments in respect of 9,285 societies. Deposits were low at Rs 17·64 crores or only 5·4 per cent of the working capital. The total borrowings of primary agricultural credit societies

in 1961–2 stood at Rs 219·07 crores of which the major part (Rs 209·48 crores) were borrowings from central co-operative banks. Borrowings, other than deposits, formed 67·3 per cent of the working capital, the balance of 27·3 per cent forming owned funds.

Theoretically, dependence on even the central financing institutions is recognized as less desirable than the raising of funds locally, at least as a permanent thing. Mr Henry W. Wolff held that a society in debt to a central bank should be regarded as a society 'in hospital'. He believed the joint-stock banks would perform the central bank's functions more inexorably and that the societies would benefit by the greater strictness. The Mysore Committee on Co-operation in the twenties approved in theory the practice general among primary societies in the state of resorting to the central banks only when they could not raise funds locally. It found, however, that in some cases the development of societies had been stunted by the practice and that a few had been practically starved. The extent to which these exhortations have failed in practice may be gauged from the figures just referred to.

Share capital is an important source of working capital. Limited liability societies always had it and it has for years been general throughout the country for unlimited liability societies as well, though Indore societies had none.[77] Shares are normally of small value, commonly Rs 10 to Rs 50 each, but it has been pointed out that in a country as poor as India the demand for even the smallest instalment may have excluded many whom it has been most desired to help.[78] The Committee on Co-operative Credit (1960) recommended that a person who wanted to join a society and whose loan requirements did not exceed Rs 200, might be allowed to subscribe to two shares of Rs 10 each and pay up only Rs 5 per share in the first instance and the balance in the next two years in annual instalments of Rs 2·50 each. This was intended to help members owning or cultivating small pieces of land who might not be able to pay the entire value of the share at the time of taking the first loan. In the effort to preserve democratic control of

primary societies, the amount of share capital which an individual may hold is prescribed in the rules, the maxima laid down in the Act of 1912 being one-fifth of the share capital of the society, or Rs 1,000. Shares have been payable in half-yearly or annual instalments, sometimes withdrawable decennially with payment of dividends after the expiration of the deposit period, subject to a maximum rate fixed under the rules or by-laws.[79]

Share capital cannot be considered part of a society's reserve, since it represents actually but an advance payment by the members against their unlimited liability. In addition to encouraging thrift in the purchase of shares on instalments, however, it shares the advantage of the reserve fund of increasing a society's financial stability and strength, and, by reducing its dependence upon outside capital, should make possible lower interest rates to members than otherwise could obtain.

More important, from the viewpoint of the members' security, is an adequate reserve. This is built up partly by overcharging borrowers. The Co-operative Societies Act requires 25 per cent of the net profits to be carried to the reserve fund, which is further augmented by entrance fees, interest on share capital and reserve fund,[80] and the value of shares forfeited to the society.[81]

The reserve fund and other funds of primary agricultural credit societies in 1961–2 totalled Rs 20·01 crores out of a working capital of Rs 325·33 crores or 6·15 per cent. An indivisible reserve is a fundamental feature of the Raiffeisen system, to serve as a buffer between the members and the rigours of possible enforcement of unlimited liability.

The reserve funds of co-operative societies are differently invested in the various states. For instance, in Bombay, the reserve fund may be invested either in the business of the society or in the manner laid down in the Co-operative Societies Act, namely, in government securities, shares of co-operative institutions, and deposits with other banks, etc. In practice, however, only urban banks have to invest their reserve fund in government securities. In the case of

others, the reserve fund is invested in their business. In Uttar Pradesh, primary societies can invest their reserve fund in their own business, but the apex bank and the central banks have to invest their reserve fund in government securities. In states such as Madras, Orissa, Punjab, Madhya Pradesh, West Bengal and Mysore, the reserve fund has to be invested separately. In Madras, West Bengal and Orissa, the reserve fund is partly invested in deposits with the apex and central banks and partly in government securities. In Punjab and Madhya Pradesh the practice has been for such investments to be partly in government securities and partly in shares of co-operative institutions. The investment of a society's reserve fund in another co-operative society cannot be regarded as altogether sound practice. Where a primary society has its reserve locked up in its financing institution, the shaky position of the latter may, at the best, mean inability to pay interest on the primary society's investment, as happened in north Orissa in the thirties,[82] and at the worst may involve even a well-managed primary society in its own crash. The Maclagan Committee was opposed to this practice, not only as making the reserve not readily available to primary societies but also as enabling shareholders in the central banks to swell their dividends at the primary societies' expense.[83]

The Committee on Co-operation in Mysore (1936), while approving the utilization, by societies with unlimited liability, of most if not all of their reserve funds in their ordinary business, stipulated that, where it was so used, interest at the same rate as on deposits for one year should be added to the reserve.[84]

The advantages of a large owned capital are obvious, but, in spite of the Maclagan Committee's finding the encouragement of its growth most advisable, experience has shown that a large percentage of owned capital, while improving a society's credit position, is no guarantee against mismanagement. It must be remembered also that a high percentage of owned capital means little if the working capital is inadequate, and that a fall in the ratio of owned to total working capital may reflect only an increase in

the society's business. The owned capital may actually have increased and yet the ratio may have declined.

Instances, moreover, have not been unknown where a large surplus has led members to agitate for the society's dissolution and the division of the capital. From the standpoint of stability in working, therefore, if not from that of encouraging thrift, the provision for the distribution of share capital at the end of a fixed period of years seems justifiable, provided the total working capital is sufficient, without the amount to be distributed, to meet all legitimate credit requirements of all members—a condition still very far from general.

The Reserve Bank has stressed the value of village societies' feeling responsible for raising funds locally. In Hyderabad, it mentioned in 1937, 300 primary societies were working on their own capital. In Punjab in 1945–6 many societies were reported to have adequate funds of their own and to attract good deposits from members and non-members. Of the 19,496 societies affiliated to central banks there, only about 40 per cent were indebted to them.[85] But these isolated statements cannot be taken as representative of the country as a whole, especially in recent years. The Punjab Registrar's report for 1955 mentions, for instance, that while the volume of owned capital has expanded during recent years, the percentage of owned capital to working capital has been steadily declining, one reason for this tendency being the increased borrowings by co-operative institutions. During 1955, the borrowings of agricultural credit societies from their financing agencies increased as compared with the previous year, but the position regarding deposits continued to be more or less stationary.[86] In 1961–2, however, agricultural credit societies in Punjab had collected deposits to the extent of Rs 5·15 crores out of a total of Rs 17·64 crores for all agricultural credit societies in the country. Taking the general situation, the fact emerges that agricultural credit societies are becoming increasingly dependent upon their central banks for funds. Thus, in 1961–2, they borrowed Rs 209·48 crores from central banks, out of borrowings totalling Rs 219·07 crores.

Non-member deposits were assiduously cultivated in the beginning, and efforts were made to convince the moneylending classes of the desirability of the rural societies as a field for safe investment, without the trouble of collection.[87] Non-member deposits still represent a considerable proportion of working capital. They are not, however, always felt to be an unmixed good. Of the total deposits of state co-operative banks as on 30 June 1962 amounting to Rs 81·44 crores, Rs 27·95 crores was from sources other than co-operative. The major part of the deposits of central banks was contributed by individuals and other sources. The deposits of primary agricultural credit societies in the same period (i.e. 1961–2) amounted to Rs 17·64 crores out of which as much as Rs 5·13 crores was derived from non-members. In the old Bombay State, non-member deposits with primary societies were once discouraged on the ground that supervision was facilitated by such societies' getting directly from the central bank all the finance they required in addition to their owned capital.[88] However, in Maharashtra (the old Bombay State, before reorganization) in 1961–2, out of deposits totalling Rs 99·46 lakhs of all primary agricultural credit societies, Rs 17·31 lakhs was derived from non-members. Non-member depositors are naturally likely to be less patient than members if a society gets into arrears, and less concerned for the good name of the movement.

The Mysore Co-operative Committee (1936) recommended that primary societies encourage local deposits from people with local interests only, but felt that members' deposits should be given preference, even by slightly higher rates of interest.

The encouragement of members' deposits is universally favoured, though in north Orissa, during the crisis in the late thirties, a limit of Rs 200 was fixed for a member's fixed and thrift deposits.[89] Various devices have been adopted for the purpose, such as substituting obligatory deposits for instalment shares[90] or requiring compulsory deposits for a period of years, representing a percentage of the loans advanced, a practice frowned upon by the Bombay

Banking Enquiry Committee in 1930 as discouraging voluntary deposits.[91]

In general, the figures for deposits give an important clue to the soundness of the movement in different parts of the country as reflected in public confidence. Many of those in rural areas with funds to invest are or have been moneylenders, and it would be hard to find a cannier lot than they are. At the primary level, in particular, a considerable number of societies are weak and uneconomic units unable to attract sufficient deposits.

Deposits or loans of limited liability societies have been limited under the rules to from 8 to 12 times their owned capital. In some cases the maximum borrowing power of a society with unlimited liability may be fixed at a definite fraction of the net assets of all members, varying usually between one-fourth and one-eighth.

Credit Policy

The agriculturist and the small industrialist must have credit, but the credit policy of the primary societies is of the utmost importance, that the credit given may assist and not ruin those whom it is desired to help. The principles that should govern primary societies in their credit policy were admirably put by F. Nicholson in 1895 in his *Report Regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency.* He laid it down that the credit which the agriculturist got

> must indeed be cheap, and facile in that it shall be ever at hand, but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted only to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self- and mutual-help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury but in being controlled, heedful and productive. It is emphatically not the outpouring of cheap capital that is required, not the mere grant of cheap facile credit to classes unprepared for the boon; what is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true object, uses and limits of credit; in other words, the development of the essential national virtues of thrift, foresight and self-help, through institutions organized for those ends.

The Reserve Bank did well to give wide publicity to these words of wisdom in its second bulletin, issued in 1937. The pity is that they were not all these years kept before the minds of those responsible for the co-operative movement, on its credit side particularly.

In Coorg (now part of Mysore State), the policy was to discourage the cultivators persistently from heavy borrowing. The Registrar seemed more deeply impressed than most with the fact that prosperity and depression followed the law of alternation or periodicity, which indeed is found throughout nature. He declared:

> I still feel that if the ryots do not take advantage of the rise in prices of agricultural commodities and liquidate their debts before the onset of full depression they will not see the light of day in years to come.[92]

Certain general restrictions on loans are laid down in all the Acts, as that loans may not be made to non-members without the Registrar's special permission, which, under the national Act, can be given only for a loan to another society. The Maclagan Committee would have had inter-lending between primary societies ruled out altogether.[93] The Model Co-operative Societies Bill prepared by the Committee on Co-operative Law (1957) contains a provision, based on the Act of 1912, prohibiting loans from co-operative societies to non-members, except to another co-operative society with the Registrar's approval. However, as in the Madras Co-operative Societies Act, the Model Bill provides for loans being granted by co-operative societies to depositors on the security of their deposits.

The idea underlying co-operative credit is, of course, that a group combining to furnish a collective guarantee can obtain funds at lower interest rates than they could individually command. A society's assets have been called 'the funded honesty of its members'.[94] Where, as in pre-partition Punjab, the law had prevented the sale of agriculturists' land in execution by the banks, personal security was relied upon almost exclusively, for both agricultural and non-agricultural societies.[95] Loans were commonly on the security of two co-members,[96] which represents a step away from strict co-operative practice.

In the old Central Provinces, where most co-operative society members were occupancy tenants, the Tenancy Act was amended in 1940–41 by making occupancy lands mortgageable and saleable for co-operative dues, which is reported to have given a fillip to the movement there, making a large portion of debts formerly bad, good.[97] Recent legislation in regard to land in some states such as Maharashtra and Uttar Pradesh has imposed various restrictions on the right to transfer or mortgage the ownership or tenancy rights in regard to land. This will retard the development of co-operative credit, especially long-term and medium-term credit, unless a special position is accorded to co-operative financing agencies.

The national Act required the Registrar's sanction for lending money on the security of movable property and provided also that the local government might prohibit or restrict the societies' lending money on the mortgage of immovable property. Loans on gold and silver ornaments are now common, especially in the practice of urban banks, rural credit societies naturally being often ill-equipped either for correct evaluation or for safe custody of ornaments pledged. The custom had grown up by 1930 in Bombay, Madras and elsewhere of making short-term advances on agricultural produce kept in the possession of the societies or by some central organization on their behalf.[98] In some states standing crops have been accepted as security. Mortgages on standing crops were reported several years ago to have been found very successful among backward groups in Bombay.[99] In recent years, especially since 1948–9, Bombay (now Maharashtra) has been attempting a system of 'crop loans' according to which loans are given on the basis of crop acreages, the time of repayment being linked to the harvesting season.

In practice, mortgage security is very common. So long as the tangible security was considered secondary, it was not deemed that mortgage or chattel security contravened the fundamental co-operative principle that credit must be personal. The Maclagan Committee stated that the main object of taking a formal mortgage was to prevent the

alienation of the property, and recommended that, as a rule, mortgage be without possession.[100] The Burma Banking Enquiry Committee referred in 1929–30 with disapproval to the neglect in that former province 'largely through mistaken preference for mortgage security, of the co-operative principle of lending only as the character and capacity of the borrowers and their mutual contact with and influence with and over each other justify'.[101]

Mortgage security has been increasingly favoured since, and sight seems in some cases to have been lost of its being strictly supplementary security; and co-operative principles have suffered accordingly. The figures collected by the All-India Rural Credit Survey Committee with regard to conditions in 1951–2 showed that a high proportion of the advances of co-operative societies in many states was against the security of land. The percentage of advances given by agricultural credit societies against the security of immovable property to total advances was 88 in Hyderabad, 78 in Bihar, 76 in Bombay, 72 in Madhya Pradesh and 68 in West Bengal. It was 36 in Madras.[102] Mortgage securities have been deprecated, not only as contravening co-operative principles but also on the ground that they tended to make recoveries worse, encouraging a dilatory attitude.[103]

The Agricultural Finance Sub-committee frowned on mortgage security, chiefly because, where it was generally insisted upon for advances, the benefits of co-operation were likely to be denied to classes having no alienable rights in land, 'even if they are otherwise industrious and thrifty and capable of making a profitable use of credit'.[104] It held earning capacity and surplus income to be the proper criteria for creditworthiness in a co-operative society.[105] With mortgage security, of course, the system of credit becomes individualistic; the co-operative principle of collective and joint responsibility is set aside; and with it the stimulus to watchfulness. The society then becomes in effect not very different from a joint-stock bank without many of the latter's conveniences.

The Gadgil Committee further recommended the Madras

system of 'controlled credit' for general adoption with suitable local modifications.[106] Co-operative credit, it has been said, 'really means controlled credit'.[107] But 'controlled credit' has come to mean specifically the advance of loans in instalments as needed on the pledge of produce, recovery being made from the crop proceeds through a close link-up with a co-operative marketing society where the credit society itself does not assume the marketing function, and only the balance being given to the borrower.[108]

The Madras Committee on Co-operation, while approving the trying out of this system in certain areas, cited the criticism that the centralized administration and the amount of supervision involved not only was expensive but also would reduce societies to the position of agents of the central bank:

> It is true that the ordinary member of a village co-operative is ignorant and illiterate, but the point is whether it is wise to keep men in leading-strings. It may mean less risk, but it may bar the way to the real progress of rural co-operative credit.[109]

Whatever may be said for the scheme in the present context, it must be recognized as but a half-way house to full co-operative practice as education spreads. The All-India Rural Credit Survey Committee recommended the system of crop loans, its main features being emphasis on production; granting of loans on the basis that a crop is anticipated, not primarily that a title exists; relating the amount of loans to the estimated outlay on raising the crop; and effecting recoveries from the proceeds of the sale of the crop.

The Committee on Co-operative Credit (1960) has pointed out that the present general practice of primary credit societies granting loans on the basis of the landed property of the borrowers has an adverse effect on agricultural production since it deprives cultivators without landed property of the benefits of co-operative credit. The committee has stated that a co-operative credit society should not deny a loan to a person merely on the ground that he does not own land or cannot produce owners of land as sureties. The primary test for judging the creditworthiness

of an individual, says the committee, is his repaying capacity.

The dangers of facile credit can hardly be overstated, but under-financing is almost as bad, in that it drives the necessitous borrower almost inevitably to the *mahajan*. Or, if a loan is inadequate for the purpose intended, say the construction of a well, the borrower may give up the project and the amount lent may easily be dissipated in unproductive expenditures. Instalment payments where possible offer one solution.[110]

The Provincial Banking Enquiry Committee in the United Provinces remarked in 1930:

> It is to be regretted that though a quarter of a century has elapsed since the introduction of co-operation, no serious attempt has yet been made to ascertain the normal requirements of a cultivator for maintenance and expenses of cultivation.[111]

It recommended early inquiries in different localities to ascertain the financial needs of different classes of cultivators, and how those needs were being met at present. For that purpose, it proposed inducing selected literate persons to keep detailed accounts of income and expenditure for a given period.[111]

The Bengal Banking Enquiry Committee in 1930 estimated the average credit requirement of an agricultural family in Bengal as Rs 160 a year on short-term or intermediate loans.[112] According to the All-India Rural Credit Survey Committee, the overall reported credit requirements amounted to about Rs 1,300 per family and about Rs 800 per family for cultivators of the upper and the lower strata respectively,[113] on the basis of data relating to 1951–2. If this is a safe basis for generalization, the average loan per member of agricultural credit societies is entirely inadequate.

A more significant figure would be the average loan per member borrowing. One of the revelations of the All-India Rural Credit Survey was that whereas the average borrowing from co-operatives per family in the case of big cultivators was Rs 21·0, the figures applicable to the medium and the small cultivator were Rs 4·7 and Re 1·9. From this the Survey Committee has drawn the conclusion

that 'the class-wise distribution of co-operative finance is preponderantly in favour of the large cultivator—as compared with the medium and the small—and, among large cultivators themselves, predominantly in favour of the big cultivator'.[114] The Survey also pointed out, on the basis of the data for the upper 50 per cent of the selected cultivators, that the cultivating families which borrow from co-operatives as well as other agencies are, in terms of percentage of the total number borrowing from co-operatives, about 88 in Madras, 75 in Punjab and Uttar Pradesh, 49 in Madhya Pradesh, 44 in Bombay and 14 in West Bengal. The position was almost similar in regard to the lower 50 per cent of the cultivators in these states. The Survey Committee pointed out that a low percentage did not necessarily reflect a better position because, in West Bengal and Madhya Pradesh, for instance, the average amount borrowed from co-operatives was only Rs 1·7 and Rs 5·4 respectively. The average loan advanced by primary agricultural credit societies per borrowing member was Rs 229 in 1961–2.

Experience has proved the necessity for maximum limits for individual loans. Some village society members in Orissa had been advanced loans up to Rs 5,000 or more in the past, far too big for repayment from income.[115] The maximum limits are properly indicated in the by-laws, and can be exceeded only with the Registrar's special sanction. An additional safeguard is the 'normal credit' system,[116] recommended by the Maclagan and several later Committees, as also by the Reserve Bank.[117] Under this, the credit limit of each member is fixed in advance of the season, which not only guards against the lending of excessive amounts but also facilitates getting the loan in time. Members then can draw upon this as necessary, paying interest only from the time they actually do so.

Ideally, the society arranges the necessary cash credit with its central institution, paying interest only when the money is withdrawn.[118] The Agricultural Finance Subcommittee would restrict this privilege of cash credit arrangements with the financing institution to societies with

sound management. Under this plan, each agricultural primary society maintains a register of assets and liabilities of each member, which is kept by the central bank and consulted in connexion with loan applications.[119]

A caution is sounded by the Mysore Committee on Co-operation in connexion with the fixing of maximum normal credits for the chairman and members of the managing committee of primary societies—that these should be especially scrutinized by the inspection and auditing staffs and reduced if too high.[120]

The Agricultural Finance Sub-committee proposed that the Madras system of 'continuity mortgage bonds' be looked into and adopted wherever conditions permitted.[106] This system, followed in some parts of Madras, of allowing members cash credit on the mortgage of landed property up to 50 per cent of its value so that they can draw on it as and when they require, seems of very questionable wisdom. It seems, moreover, to go against that committee's own principle, which is in harmony with the co-operative ideal, that a member's creditworthiness should be assessed on the basis of his repaying capacity[65] rather than on that of the assets the sacrifice of which might save the society from loss but ruin him. Experience has proved the average cultivator's need of the restraints with which the co-operative society surrounds him. Until education in general and particularly in co-operative principles has advanced much further, better the harassment of some delay and difficulty than putting such a strain on individual prudence!

The committee has in mind the fact that unless the society can furnish money on short notice for current agricultural needs the cultivator must go to the money-lender, but its other proposals, that societies in good standing might be allowed to keep some small cash in hand against emergencies, and that specified office-bearers might be granted authority to sanction urgently needed loans not in excess of a specified amount, should go far to meet the difficulty.

In 1940-41, loans to big borrowers represented 77·2 per

cent of all loans in Berar; this percentage had happily been reduced by 1944–5 to 26·1 per cent[121] though the Central Provinces and Berar still had 293 borrowers owing Rs 1,000 or more. Data collected by the All-India Rural Credit Survey to show that the lion's share of the benefits of co-operative credit went to the big cultivator have already been given. How far this is from the admittedly limited purpose for which the co-operative movement was originally launched in India may be judged from a Resolution, April 1904, in which the government stated that the societies contemplated by the Act would be 'small and simple credit societies for small and simple folk with small and simple needs and requiring small sums only'.[122]

The analysis of loans by agricultural credit societies in Coorg in 1946–7 showed 5,447 of Rs 50 and below; 1,121 from Rs 51 to Rs 100; and 923 in excess of Rs 100. Only 37 loans were in excess of Rs 500 though there were 8 for more than Rs 1,000, these representing, however, less than 2 per cent of the total.[92] The All-India Rural Credit Survey showed that loans varying in amount between Rs 300 and Rs 1,000 accounted for 20 to 35 per cent of the total number of loans studied in Madras, Bombay, Punjab and PEPSU. In almost one-third of the total number of selected districts in respect of which data could be collected, more than 50 per cent of the total number of loans 'were given in size of less than Rs 100 each'.[123]

The Bihar and Orissa Banking Enquiry Committee (1929–30) believed the finance given for agricultural primary society members to be not much more than three-fourths of their actual requirements.[124] The United Provinces Banking Enquiry Committee attributed the failure of members of societies to get enough to satisfy all their needs not to the lack of money so much as to the lack of security and the fact that bad debts had been so numerous that banks and societies did not dare advance more money.[125] If the loans given by the primary credit society are related to the cost of cultivation per acre which is the essence of the crop loan system and if the operations of the credit society are linked to those of the co-operative marketing society, the

system of co-operative loaning will become flexible and be of real benefit to the cultivator.

The general severe contraction of loans to agriculturists during the thirties must have worked as a hardship in very many cases, while it may not have been altogether a bad thing in one way, convincing many, as it must have done, of the possibility of survival on less credit than they had considered necessary. The severity of the contraction in rural societies' loans is indicated by the Mysore Committee on Co-operation, which reported a reduction from Rs 20·86 lakhs lent in 1929–30 to Rs 8·63 lakhs during 1934–5, though during the same period, it may be noted, urban credit society loans rose from Rs 58·08 lakhs to Rs 81·66 lakhs.

So great is the importance of maintaining and increasing the fertility of the Indian soil in the interest of greater food production, that every effort should be made to ensure the agriculturist sufficient credit for the expenses of cultivation; and that loans required for maintenance should be available goes without saying. It may be mentioned parenthetically that the estimate of the Advisory Board of the Imperial Council of Agricultural Research that 480 million tons of farmyard manure each year was denied to the soil, largely because of its use as fuel, underlines the importance of such schemes as that in Uttar Pradesh for the establishing of plantations for the supply of fuel and small timber.[126] Under the Second Five-Year Plan, the target for additional production of foodgrains was 10 million tons as compared with 7·6 million tons in the First Five-Year Plan. The target was subsequently raised to 15·5 million tons. The target of additional production of foodgrains in 1961–6, under the third Five-Year Plan, is 24 million tons. It is obvious that this programme cannot succeed unless the cultivator has adequate credit for various purposes such as buying fertilizers and manures, improved seeds, development of land, etc. The *Report of the Foodgrains Enquiry Committee* (1957) quoted figures to show that the estimated requirements of sulphate of ammonia for 1957–8 and 1958–9 would be 13·4 and 14·5 lakh tons respectively.[127] It has been

reported that the demand for nitrogenous fertilizers increased further during 1962–3, although only about 70 per cent of the demand could be met owing to shortage of foreign exchange. The Third Five-Year Plan comments that sufficient stress is still not being laid on extension work in the development of local manurial resources, especially organic manures. The Plan also stresses that the availability of credit for enabling small cultivators to use fertilizers is of the greatest importance.

The Madras Registrar reported an unprecedented demand for credit in 1946–7, tentatively attributed to rising costs.[128] In his report for 1955–6 the Registrar referred to the increase in the loaning activities of co-operative credit societies, in the context of the various schemes for development of co-operation. This was the position also in 1963–4 not only in Madras but in most other states.

An important factor in credit policy is the purpose for which loans are given. Credit for consumption, if granted without due safeguards, by general admission spells danger to lender or borrower or both. The Committee on Co-operation in India stressed the importance to the security of a co-operative credit society of the productive use of each loan.[129] But the situation in regard to legitimate purposes of loans is a little different in India, with its rigid social customs, from that in most other countries. The Acts are wisely silent on the purposes of loans, for in India the distinction has had to be, not between productive and non-productive so much as between necessary and unnecessary purposes. The combating of traditional requirements of extravagance on such occasions as a wedding is one of the objects of some co-operative societies, notably of those specifically designed for the promotion of 'better living', which will be considered separately.

The Gadgil Committee recommended that the primary credit society try to finance all the short-term needs of its members, and, subject to certain conditions, their intermediate credit needs as well.[65]

The earlier advocacy of 'full finance' for co-operative society members, lest they be driven to the moneylenders,

was comprehensible so long as there was no provision for debt redemption and no land mortgage banks were available for long-term credit. Many of the vicissitudes which have overtaken the movement, however, have been due in considerable part to the tying up of funds in long-term loans. The practice still continues, at least for small amounts. In 1941–2, Madras village societies were issuing over Rs 40 lakhs for debt redemption, or 12·9 per cent of all loans; the figure for non-agricultural societies being 33·49 per cent.[130] In subsequent years, however, there was a tendency towards such loans for debt redemption becoming substantially reduced. The practice may be necessary, but it is not sound.

The explanation doubtless lies in that offered by Shri P. H. Krishna Rao, once Commissioner for Economic Development and Planning in Mysore, in a speech reported in *Mysindia* of 11 November 1944—that the land mortgage banks were not reaching the small debtors, those who owed less than Rs 300, 80 per cent of Mysore debtors falling in that class, though only 30 per cent of total village debts. Comprehensive economic surveys of 258 typical villages in that state in 1941 and in 1945 had shown a very slight decrease in the number of debtors, from 21,831 to 21,412 families out of the 38,941 and 41,621 families included in the respective surveys, but an increase in total indebtedness from Rs 56 to Rs 98 lakhs. No wonder the Mysore Registrar in his 1945–6 report approved rural societies' redeeming their members' debts below Rs 200![131] The All-India Rural Credit Survey Committee has pointed out in *The General Report* (1954) that even though it is true that small loans are not economical from the point of view of land mortgage banks, it is essential that the needs of the medium and small cultivator should receive considerably more attention than they get at present.

In the same Resolution of 1904, quoted above, the government had warned that

> it is exceedingly inadvisable that these societies should be allowed to lock up their limited capital in a form in which it is not readily available; their most useful form of business will probably be small loans for short periods with prompt recoveries.[115]

This highly commendable lead was not followed for three or more decades with any of the parallel provisions necessary to make that practice feasible. Unless something is done about the old debts, the co-operative societies have felt practically compelled to do what they can. Even a small debt to the moneylender grows alarmingly.

Loans for cattle purchase, generally classed as intermediate loans, are a very important item in several parts of India; in Kashmir, for example, in 1945–6 they accounted for 55·2 per cent of all loans,[132] and in the Central Provinces and Berar, in the quadrennium ending with 1944–5, they represented 52·1 per cent of the total. The Rural Credit Survey indicated that the two most common purposes for which loans were advanced by primary credit societies were current farm expenditure and purchase of livestock. In Madras, 46 per cent of the amount was given for current farm expenditure and 7 per cent for purchase of livestock.[133] In 1961–2, out of a total amount of about Rs 23 crores of medium-term loans issued by primary agricultural credit societies, Rs 1·40 crores was for sinking of or repairs to wells, Rs 1·85 crores for purchase of pumps for irrigation, Rs 8·54 crores for purchase of cattle and Rs 4·54 crores for minor improvements to lands.

The period of a loan is determined mainly by the possibility of repayment out of the income derived from its use or the resulting savings,[134] at least in theory. Short-term loans are properly those for current cultivation expenses, and repayment in a normal season should be expected out of the proceeds of the next harvest. But, agriculture in India being peculiarly at the mercy of weather variation, elasticity in the resources of any institution which undertakes to finance the cultivators is indispensable. The Maclagan Committee laid down the rule that where the average cycle consists of one good, one bad, and two indifferent years the society should require payment after the first good harvest, as moneylenders always have done,[135] but that normally two years should be the maximum period for non-productive loans.[136]

It is for the society to bear in mind the inevitable recurrence of good and bad years, to be economical in the issue of loans in times of plenty, and to be still more economical in times of stress, but at the same time to continue granting loans harvest after harvest until good times return, *ignoring if necessary the preconceived limits based on valuations of the member's property and earnings,** and finally to recover gradually but vigilantly all sums that a prudent money-lender would recover, without allowing the borrower to misuse on unnecessary objects the savings which he should refund to the society.[137]

The italicized portion seems to be dangerous counsel, however unavoidable in some cases this procedure may be. It raises the question whether co-operative societies are the solution for the hazards of such precarious tracts.†

Two or three annual instalments usually are allowed for the repayment of advances taken for the purchase of bullocks, carts and implements, or domestic or ceremonial expenditures; and the repayment of loans to liquidate previous debt, to improve land, or to purchase and install agricultural machinery must be spread over a longer period, often five to ten years—hence their unsuitability for the village credit society.

The restriction of loans to three years, except those of land mortgage banks, as in a Madras rule framed in 1941–2, with the provision that with the Registrar's permission a loan may be extended to five years,[53] should help to check long-term lending, if its purpose is not defeated by renewals.

That it is not always possible to repay even short-term loans out of the sale proceeds of the crop for which the loan is taken is brought out by an experiment in Madras with groundnut societies, financed by the central banks on the understanding that sales would be through the marketing society. Even loyal members could not fully repay the advance in the first year out of the sales of that year's harvest and the next.[138] Dewan Bahadur K. D. Mudaliar suggests that 'a fairly good proportion of the unproductive debt which is now hanging over the heads of members of co-operative societies generally was contracted in this way'.[138] Subsequent and more recent reports from Madras, however, show that the scheme for linking credit with marketing worked well for groundnuts in the Salem District.

* Italics mine. † See Chapter V, 'Conditions of Success'.

The Madras Committee wisely recommended the adjustment of recoveries to the cyclical trend of production. A uniform method of recovery all over even that one state would not be suitable, since, in part of it, crops normally failed in one year out of three; in others, in two years out of three.[139] The Travancore Committee recommended a maximum of eighteen months for short-term loans, but making medium loans repayable in five to six years, to reduce the size of the instalments.[140] The Mysore Committee's calling loans for five to ten years 'intermediate' seems too lenient.[141] A loan of more than five or six years at most should be classed as a long-term loan. An upper limit of three years was recommended for intermediate loans by the Thirteenth Conference of Registrars (1939). The Reserve Bank once indicated that agricultural credit societies may confine their business generally to short-term loans and grant intermediate loans (necessary for cattle purchase, etc.) only to a moderate extent.[117] Since 1953, the Reserve Bank has been providing medium-term loans to the co-operative credit structure for periods over fifteen months and up to five years, for agricultural purposes. These loans are channelled through state co-operative banks, central banks and primary credit societies.

It is not surprising that when the nemesis of long-term lending overtook the movement, as in north Orissa where the bulk of the loans outstanding had been given for more than five years, the tendency since then should be to restrict loans to cultivation purposes.[142] In Orissa in 1945–6, 91 per cent of agricultural societies' loans were for productive purposes, just over 8 per cent for debt redemption and only 0·7 per cent for other non-productive, however necessary, purposes.[143] Data for 1961–2 indicate that the major part of agricultural societies' loans in Orissa were for productive purposes. In the Rawalpindi Division of pre-partition Punjab, where recoveries were the worst in the province, the general policy in 1939–44 was strictly to control lending to societies in unsatisfactory standing to productive purposes only.[144] In that province in 1939, the financial condition of many societies made it impossible for them to obtain

finance from the central banks or to lend to their members. In others, it was the indebtedness and general economic condition of individuals that put them beyond the reach of fresh finance from their societies. In both such cases, the general rule was to afford them fresh finance up to usually 75 per cent of the cash repayments they were able to make,[145] a counsel of mercy which certain other provinces would have done well to follow.

In Bengal about 13,000 crop loan societies were set up around 1940, and also many in Berar, mainly 'to fill the gap created by the freezing of the pre-existing credit machinery'. While the former, which were expected to provide a system of controlled credit, had succeeded to some extent, difficulties were encountered in Berar, where several factors, including alleged lack of the co-operative spirit, comparatively poor crops and the low prices then prevailing had handicapped the experiment. Recently, in West Bengal, crop loan societies have been utilized to channel Reserve Bank finance.

One difficulty which only alertness and close mutual supervision can overcome before the general moral tone is raised is that the ostensible purpose for which loans are sought is not always the real purpose. Not only is there the *benami* loan, which an obliging friend takes in his own name for a member whose limit of credit with the society has been reached, but also there is frequent concealment of the object of a loan sought for the borrower's own use. The fact that it is often the members of the managing committee who are the offenders in securing this type of loan through other members of the society is most regrettable.[146] The Rural Credit Survey Committee reported that the data collected in the course of the survey strongly supported the suspicion 'that the purposes for which co-operatives gave loans were in many instances not those for which the cultivator utilized the borrowed amount'.[147]

Though interest rates on loans to members of agricultural credit societies vary not only from state to state but sometimes from district to district, they are in general

distinctly lower than twenty years ago, though the Saraiya Committee found the common rate of 9 per cent or more too high.[148] The Punjab rates on agricultural credit society loans to members in 1961–2, were from 6¼ per cent to 9⅜ per cent. The lowest and highest rates varied from 5 to 9 per cent in Uttar Pradesh, 7½ to 8 per cent in Assam, 6 to 9⅜ per cent in Maharashtra, 6¼ to 7⅙ per cent in Madras, 6 to 11 per cent in Madhya Pradesh, 7½ to 9 per cent in Orissa, 6¼ to 9⅜ per cent in Mysore, 6¼ to 7½ per cent in Rajasthan, 7 to 8 per cent in Andhra Pradesh and 6¼ to 12½ per cent in West Bengal. The Rural Credit Survey showed that loans at less than 6¼ per cent per annum were given in only 7 out of the 75 districts surveyed, of which 3 were in Madras. All the loans studied in Madras, and more than 95 per cent of those studied in Bombay, were given at $7\frac{3}{16}$ per cent or less. In Punjab and Hyderabad the common rate was 9⅜ per cent. In Rajasthan and Assam, most of the loans were given at 12½ per cent.[149]

Any interest at all is objectionable to some very orthodox Muslims, who interpret so strictly the Koran's injunctions against usury that they will have nothing to do with a co-operative bank because it charges interest on loans.[150] The principle is reported to be weakening gradually, although the unclaimed interest on Muslims' deposits in the Post Office Savings Bank is said to have amounted, some thirty years ago at least, to lakhs of rupees.[151] And this in spite of the Pathans, some of the most notorious usurers in India, professing that faith! Where prejudice against interest and even against dividends on shares does exist among co-operative society members, it has the advantage of facilitating the building up of a society's owned capital.

It was startlingly proposed in 1947 by Dr A. I. Qureshi that primary credit societies should make interest-free loans to needy farmers for non-productive purposes, such as ceremonials. He argued that without accumulating interest there was greater likelihood that the loan would be repaid.[152] Even granting this possibility as valid in so far as mounting interest discourages repayment effort, his confidence that

fear of incurring the bad opinion of fellow-members with the power to cut off future interest-free credit would prevent defaulting seems unduly optimistic in the light of the overdues record in India, even with the check that interest imposes. If Dr Qureshi is able to try out his theory in Pakistan, an avowedly Muslim state, the results will be watched with interest.

Theoretically, the aim of co-operative societies is to give their members better service for less than they would have to pay outside. The societies' rates have been, in general, far below those of the *mahajans* operating in the same territory, but the stand was taken early that moderately high rates were advisable, not only to discourage reckless borrowing and borrowing for re-loaning by members, but also to provide for bad and doubtful debts, to cover management expenses, and to build up the society's surplus the more rapidly. The Maclagan Committee pointed out that a society's profits depended mainly on the difference between its borrowing and its lending rates and held that, until the reserve fund had reached a substantial figure, it was a mistake to reduce unnecessarily the rates at which money was lent to members.[93]

It is obviously undesirable to reduce the rates so far that the society works at a loss. The difficulty, however, goes behind the primary societies to their financing institutions. In West Bengal in 1961–2 the central bank's lending rate to the primary credit societies was usually 6¼ per cent while their usual rate on borrowings from the apex bank was 3¼ per cent. In Madras, the usual rate on advances of central banks in 1961–2 was 4½ per cent in respect of loans for seasonal agricultural operations. The relevant percentages were 5 in Kerala and Andhra Pradesh, 4½ in Maharashtra, 4¾ in Mysore, 5½ in Punjab and 6¼ in Uttar Pradesh.

The Gadgil Committee in 1945 set limits of 6¼ and 4 per cent for current and development finance, respectively, to primary society members,[65] which are impossible without the co-operation of the central banks. Those in Bombay were advised to reduce their lending rates to primary

societies from the beginning of 1947–8 to 4 per cent, thus allowing the primary societies a margin of 2¼ per cent between their borrowing rate and the 6¼ per cent lending maximum recommended. Some of the central banks were reported to have demurred pending assurance of government assistance in meeting any deficit involved.[153] In 1961–2 the most usual rate of interest on borrowings of central banks in Maharashtra from the state co-operative bank was 2½ per cent. The Committee on Co-operation in Madras (1955–6) was of the view that there was not much scope at present for reducing the rate of interest to the ultimate borrower below 6¼ per cent.

The danger in reducing rates too far below the current market rates, against which the Maclagan Committee warned,[154] is not only that the society's finances will be unsound but also that members will be tempted to discharge first their obligations to the moneylender with his higher rates, while the society's overdues pile up.[155] Unless, moreover, a credit society's lending rate is sufficiently higher than its borrowing rate to make a little profit, it is difficult to see how bad debts in excess of the society's reserve can ever be paid off. In spite of all that has been said, however, against too low interest rates, I am convinced that, given proper control of credit, they are less objectionable than too high ones. And the rates which members generally have to pay are still too high.

The Central Banking Enquiry Committee emphasized in 1931 that 'one of the main requisites of agricultural credit is that it should not be too costly'.[156] Shri Vaikunth L. Mehta put it well, that the rate charged should be the lowest possible consistent with safety and allowing for management expenses and bad-debt insurance.[134]

The Agricultural Finance Sub-committee maintained that where the co-operative societies' lending rates were high due to the small size of the unit and the high costs of administration, the government should subsidize them to bring the lending rate within the recommended limits.[106]

A slight rate differential in favour of those making

punctual repayments, as in the North-West Frontier Province's* rehabilitation measures,[157] seems an excellent idea.

It is worth noting that the interest charges of grain *golas* are sometimes far above those of credit societies on a money basis. Both in Gwalior and in Bhopal, where several years ago interest of 25 per cent was being taken by such grain banks, this was excused as causing no hardship![158] This exorbitant rate was reported 'found reasonable by borrowers because they borrow when prices usually are high and repay at harvest when the prices are lower'.[159] Small as their operations are, the grain *golas* in Bihar and Orissa in 1929–30 were showing a profit of about 13 per cent on their working capital, as compared with that of ordinary unlimited liability societies, which was less than 2 per cent.[160] The rate of interest charged at present by grain *golas* in Orissa varies from 15 to 25 per cent. It has been pointed out by official sources in that State that though this rate may appear to be high compared to the rate on cash loans, a considerable allowance has to be made for factors such as dryage, wastage and price fluctuations. Further, the moneylender's rate for grain loans was said to exceed 50 per cent.

The Act of 1912 provides that a registered society may invest or deposit its funds—other than those immediately required in its business—in the government savings bank, in certain specified securities, in the shares or on the security of any other registered society, with any bank approved by the Registrar or in any other way the rules permit. The Maclagan Committee objected, for obvious reasons, to primary societies' investing in the shares of any society with unlimited liability, but numerous societies have been members of other primary societies. In general the surpluses of primary societies have been concentrated in the central banks which finance them,[96] though the Maclagan Committee favoured primary societies' using their surplus assets in loans to members, after due provision for fluid resources.[161]

* Now part of Pakistan.

Management

The management cost of agricultural credit societies, both large and small, naturally varies widely with the state and among individual societies, depending partly on the lines of activity taken up. The average cost of management of a primary agricultural credit society in India in 1961–2 was Rs 323, as compared with Rs 2,505 for a primary non-agricultural credit society. The average cost per member gives a truer picture, due to the difference in size of the two types of societies; it was about Rs 4 per agricultural credit society against about Rs 7 per non-agricultural credit society. The cost of management of agricultural credit societies formed 2·14 per cent of their working capital in 1961–2 as compared with a percentage of 1·90 for non-agricultural credit societies. The higher management costs in connexion with the expansion into new fields may account for a noticeable increase in the last two decades. Naturally, however, as the size and scope of the undertakings have increased, the employment of competent workers is of great importance, and these are sometimes not to be had without proportionately high salaries. Of course gratuitous service by members or honorary workers convinced of the value of co-operation is the sovereign specific for high management costs, but this can be counted upon only to a limited extent.

The scarcity of literate agriculturists with any knowledge of account-keeping constitutes a real problem in some villages. Not infrequently in such cases the village accountant or village schoolmaster is pressed into service as secretary. Where no suitable person is available for the amount a single society usually can afford to pay, neighbouring societies sometimes have been grouped together with a well-paid full-time secretary.[87] Theoretically in the interest of efficiency and economy, the group-secretary plan is found to have decided drawbacks in practice. The Maclagan Committee frowned on group secretaries except as a temporary expedient, as giving the secretary too much power, and recommended that the secretary be kept, as far as possible, to clerical work, and that he be a local

man.[161] Experience has shown that the system of group secretaries suffers from various defects such as lack of proper control over their activities and mixing up of the accounts of several societies. If a part-time secretary has to be employed, it is necessary to ensure that he is a resident of the village in which the society is situated.

In Gwalior, for example, ten or fifteen societies used to be served by a single secretary, who kept the accounts, did other clerical work and conducted meetings.[162] It is common practice elsewhere for such secretaries, often employed by the central bank or by a supervising union, to keep the accounts of a number of primary societies. The Reserve Bank blamed such group secretaries, doing everything for a village society, as probably more responsible than any other factor for the members' lack of understanding of co-operative principles. That this view is not unshared by co-operative officials is indicated by the North-West Frontier Province Registrar's mention, in his report for 1945–6, that that province was 'free from the curse of circle secretaries'.[163]

The Cochin Co-operative Societies Act was amended in 1945–6 to give the Registrar the right to insist on a full-time secretary for a society with a working capital above certain limits.

The remedy for the lack of competent local secretaries is obviously education and in many states classes for secretaries as well as for members of the managing committees are a regular feature of co-operative effort. About 767,000 members of co-operative societies, 62,000 honorary office bearers and 25,000 paid-staff were trained by the co-operative unions and institutes by the end of June 1962. The educational effort generally will be considered in connexion with the work of the provincial (state) co-operative institutes, by which it is often undertaken.

Only the secretary of a primary society is paid, as a rule, though not even he always receives remuneration for writing the society's accounts. The secretary is doing responsible work. He gives of his time and it is only just that he be fairly remunerated, taking into account the

society's financial standing, as well as his own competence. An incompetent secretary may cost less but is a very poor investment. The secretary's insecurity of tenure has been recognized as a handicap. The Supervision Committee, Bombay (1933), recommended a five-year term for the secretary of a rural society, with the proviso that for neglect or misconduct he might be dismissed earlier with the approval of the District Board of the Supervising Union.[164]

The large-sized credit societies which were set up in various states as part of the co-operative development plans were expected to employ full-time paid secretaries. The plans provided for subsidies from the government for employing such secretaries, generally at the rate of Rs 3,000 per society for an initial period of three years, on the following basis:

		Percentage of subsidy by	
		the Government of India	*the state government*
First year	..	50	50
Second year	..	33⅓	33⅓
Third year	..	16⅔	16⅔

Subsidies for employing secretaries are also available to newly organized and existing small credit societies taken up for revitalization to the extent of Rs 900 for each society, the assistance being spread over a period of five years, to enable such societies to meet their working expenses.

The secretary keeps the accounts according to rules framed by the local government. The minimum requirement for the accounts of a credit society are described as a cash book, a ledger account for each member, a register showing when repayment of loans is due, a register of deposits and a minute book. In some states the secretary must keep also a share transfer register; an interest account; an expense account; a bank account; a receipt book with forms in duplicate; a limited liability register showing the indebtedness of every member to the society, whether on account of loans he has taken direct or on account of those for which he stands surety; and, in the case of unlimited

liability societies, a statement showing the assets and liabilities of each member on the date of his admission, as well as on the last day of each co-operative year. The law requires the publication of a balance sheet twice a year. In addition, a statement of capital assets and liabilities must be kept conspicuously posted and every member and creditor is entitled to a copy.

Probity has proved at least as important in the choice of a secretary as his skill in accountancy, important as that is. The combining of the offices of treasurer and secretary in a single person is particularly open to objection. So is the practice which has sometimes been followed of basing the secretary's remuneration on loans granted, which of course offers a direct invitation to the encouragement of injudicious borrowing and the manipulation of accounts, the recording of extensions as fresh loans, etc. A sounder method would seem to be to base the secretary's compensation partly on the society's audit classification, with a premium beyond the agreed minimum as the society is promoted from grade to grade in its efficiency rating, or kept in the higher classification once that is attained.

The societies registered under the Act of 1912 are bodies corporate.[165] The ultimate authority vests in the whole body of members in general meeting. At this meeting each member of a society with unlimited liability has a single vote, while a limited liability society member has as many votes as the by-laws prescribe,[166] though return to the primary co-operative principle of one man, one vote, has been advocated. The model by-laws prepared by the Committee on Co-operative Law (1957) for large-sized societies provide that if the government has purchased shares of the society directly, or if the state co-operative bank or the central bank has purchased such shares out of funds provided by the government, three persons, or one-third of the number of directors, whichever is less, shall be nominated by the state government or any authority specified in this behalf by the state government.[167] The annual general meeting is held at the end of the co-operative year. At this, accounts are submitted, the balance sheet

is passed and the managing committee, chairman and secretary are elected. In some states the general meeting fixes the borrowing limit of individual members, sets the maximum amount the committee may borrow, dismisses members for misconduct or serious default, and settles the rates of interest for loans and deposits for the ensuing year.[87]

While a managing committee is not specifically required by the Act of 1912, its existence is assumed.[166] The committee normally consists of five to nine members. The chairman is generally one of the leading people in the village. The usual disqualifications for committee membership are:

1. Being under twenty-one years of age.
2. Holding office or a place of profit under the society or having relatives who do so.
3. Holding less than a specified number of shares or having been a member less than a specified time.
4. Carrying on any business similar to that of the society, i.e., being a moneylender.[165]

Sometimes also a defaulting member is disqualified for the managing committee, which is as it should be.

Subject to any restrictions or regulations laid down by the society or its by-laws, the committee exercises all the powers of the society except those reserved for a general meeting. It cannot delegate its powers unless authorized in the general meeting to do so. Its duties consist in observing the Acts, rules and by-laws; maintaining true accounts of money received and expended; keeping accounts of the society's assets and liabilities; facilitating the inspection of books by those authorized to see them; preparing and presenting to the general meeting an annual profit and loss statement; watching that loans are applied to the purpose for which they were approved; maintaining an up-to-date register of members.[165] The committee alone can receive deposits, arrange for outside loans, grant loans to members, and take action in the case of defaulting members.[87] The committee superintends the secretary, who carries on the actual daily work.

The vesting of final authority in a general meeting of the members is only nominal in many cases. Due partly, no doubt, to the members' illiteracy, they are frequently uninformed on the society's affairs and, what is worse, uninterested in them. The Maclagan Committee recommended frequent general meetings,[168] but even the annual meetings have often not been well attended and it has been suggested seriously that members be attracted to them by various side features such as socials and exhibitions.[169] The members' apathy encourages interference by the central bank, or even makes it necessary, besides giving an undue amount of power to the office-bearers, which has not infrequently been abused by favouritism in making loans or even by criminal practices.

The Indian ryot is said to be 'proverbially honest and straightforward in his dealings except when years of famine and hardship make him at times crafty and recalcitrant'.[170] In Uttar Pradesh in 1944–5 there were 84 cases of embezzlement, involving Rs 20,057,[171] though not all these involved rural credit societies. The Uttar Pradesh Registrar's report referred to the fact that audit revealed many serious irregularities and embezzlements during 1953–4.[172] In Bombay in 1954–5, the Registrar's report mentioned that the number of cases of misapplication of funds had been alarmingly large and that frauds and misapplication of funds remained unnoticed over a period of years.[173] In Madras, during 1955–6, 101 criminal complaints were filed with the police for prosecution of employees and office-bearers of co-operative societies for alleged misappropriation of funds in societies.[174] The number of cases of embezzlement detected in 1961–2 all over the country stood at 852 with regard to primary credit institutions, the amount involved being Rs 33·90 lakhs. The temptations and the opportunities for committing fraud are often great, and when the thousands of credit societies in the country are considered, this showing is numerically perhaps not very large. The problem of dealing with such cases, however, is a real one. If prosecution is promptly launched, it has been pointed out, the whole amount involved may be

irrecoverable; if, as the Travancore Committee found, no steps are taken in many cases to bring the culprits to book, the effect on others is demoralizing.[175]

Mismanagement is a far more frequent cause, however, of societies' shipwreck; the intelligence, conscientiousness and energy of the managing committee has very much to do with a society's prosperity.

The Maclagan Committee pronounced re-election to the managing committee permissible, but stated that the ordinary period for which a committee is elected should not exceed one year.[161] The Mysore Co-operative Committee headed by Sir Lalubhai Samaldas thought it undesirable to keep the same management year after year because it prevented early detection of mistakes and also failed to train a large number in management.[176]

Valid as these objections are, in many cases the number of qualified candidates for the managing committee is very small, and the personal factor has sometimes proved a very potent item in the success of a society. Where the committee is working well and impartially, there would seem to be no object in a complete turnover. An amendment once introduced in the erstwhile Cochin State requiring the retirement of at least 25 per cent of the old members of committees every year offers a middle course.[40]

Managing committee members are nominally responsible for any action in contravention of the by-laws. The committee offends probably more often by negligence than by intent, but in practice many societies, even though financially sound, are badly managed. The supervision expected of the committee members over the employment of loans is often slighted, though in some states the committee has the power to recall a loan granted for a specific purpose and misapplied.

A remedy for the unsatisfactory functioning of managing committees where it has seemed to threaten the very existence of their societies has been found in the authority given to the Registrar in a number of states to supersede such a committee and to have the society run by his nominee until restored to normal working, or, if found irredeemable,

liquidated. Supersession is reported to have proved a very effective remedy in Madras and elsewhere, helping considerably the revival and development of societies.[177] The power, if used with caution, is yet fairly freely invoked in some states. In Maharashtra the managing committees of 82 societies remained under suspension at the beginning of 1961–2. Voluntary supersession of the managing committee by the vote of the membership and the appointment of an agent *pro tem.* to bring the society to a better position, once widely practised in Madras, is not opposed to co-operative principles as the supersession of the committee by the Registrar, however beneficial, must be recognized as being. In any case, it seems only fair that before such actual supersession the declaration of the Registrar's intention should be made and that an opportunity should be given to the members at a special meeting to take such action as they see fit to remedy matters, the choice of an agent being necessarily, in the present situation, subject to the Registrar's approval.

One of the most difficult problems of management is connected with the insistence required on the repayment of loans when due. This is vitally necessary and undue leniency has often proved to have been mistaken kindness, encouraging irresponsibility and almost necessitating greater future harshness. When some compelling reason, such as crop failure or illness, justifies extension, it should be formally allowed before the demand falls due. The Central Banking Enquiry Committee held in 1931 that 'extensions for repayment should be given only in circumstances of exceptional difficulty'. As checks upon undue leniency in this respect might be suggested the requirements that extensions should be granted only with the approval of the central financing institution, and that extensions to members of the managing committee should require in addition the consent of the members at a general meeting.

The Committee on Co-operative Societies in the United Provinces (1922) held that postponement should be liberally allowed, by both banks and societies, when crops were bad or an individual had suffered unexpected loss.[178] But

letting overdue loans slide or making book adjustments to show a loan paid and a fresh loan taken without any corresponding transactions having taken place has been the bane of the movement in more than one state. Loans made immediately, or very shortly after, repayment of old loans should properly be objects of suspicion, especially in the case of agricultural societies, where current loans are not normally required at the harvest season, when repayment normally is made. At other times, where the money actually changes hands but a new loan is sought immediately, a short-term loan by an obliging moneylender may be the explanation. The Reserve Bank once called fictitious repayments 'a co-operative crime of the worst kind'.[117]

The practice has not been uniform of crediting repayments to principal instead of to interest. It would be desirable if the annual *Statistical Statements* could indicate the amounts due in the several states as principal and as interest. The Reserve Bank complained in its *Review of the Co-operative Movement in India*, 1939–40, that no accurate figures for overdue interest were available, though apparently the amount was considerable.[179] For the whole of India, the proportion of overdues of agricultural credit societies in 1961–2 to loans outstanding was 24·52 per cent. The percentage of overdues in relation to outstandings in 1961–2 in some of the states may be mentioned. It was 71·21 in Assam, 24·91 in Gujarat, 28·96 in Madhya Pradesh, 20·28 in Orissa, 10·35 in Madras, 29·38 in Maharashtra, 12·32 in Uttar Pradesh, and 28·72 in West Bengal. In the case of non-agricultural credit societies in 1961–2, overdues formed 6·29 per cent of the outstandings.

In practice, the difficulty has been less with undue leniency in extensions than in a complaisant attitude towards unauthorized overdues. The Madras Co-operative Committee went so far as to recommend moving against defaulters after three months, giving extensions in all deserving cases and closing the loan account in all others.[139]

Mounting overdues raised a problem which became acute during the depression years, when past seasons of

over-borrowing and under-vigilance, coupled with low prices of agricultural products and aggravated sometimes by successive years of crop failure, brought the movement to the very brink of disaster in several provinces and states. A subsequent phase of over-severity in Berar,[180] in Delhi,[181] in Punjab,[73] and elsewhere brought suffering to many others than the wilful defaulters for whom no clemency could be expected, and brought the movement in the areas involved into unpopularity, making its victims bitter and alienating the sympathy of even good co-operators. It was reported in the twenties that in one province 40 per cent of the defaulting members of 130 liquidated societies in a single district were so broken in spirit that they left to seek fortunes elsewhere, while half the remainder gave up the cultivation of their lands in despair.[182]

The Bihar and Orissa Banking Enquiry Committee urged that it was essential to prevent societies reaching the stage of liquidation, or, if liquidation became inevitable, that it be carried through before individual defaulters became insolvent.[183] It is in letting matters drift that the danger lies—for the society as well as for the members. Hence the necessity for thorough supervision and for vigorous and prompt action when necessary.

Pressure and moral influence have since the thirties been increasingly relied on in Punjab,[184] Delhi,[185] Bihar[186] and Orissa[142] as an alternative to wholesale executions of awards, and, at least during these fairly prosperous days, are reported to have been working well. That moral suasion cannot be wholly relied upon, however, is evident from the effect reported of the temporary suspension of awards as a relief measure in Indore in 1947.[187] The Indore Registrar remarked in his 1946–7 report: 'This has not only adversely affected recoveries but even stopped voluntary repayments, especially in the rural side of the movement.'[187]

The widely launched rehabilitation programmes, following investigations by experts, varied from state to state, but in many cases the principles were accepted of determining the financial position of individual members, reducing the indebtedness of members unable to repay in

full to an amount within their repaying capacity in instalments spread over a number of years, reducing or remitting interest charges where necessary, furnishing seasonal finance on a moderate scale, writing off bad debts (which in some cases involved government assistance to the central financing institution) and, so far as possible, setting the stage for a fresh start. Even where unlimited liability was enforced, the hire-purchase system whereby the former owner could work his forfeited land and buy it back by instalments over a number of years was copied in some cases from the rehabilitation scheme successful in Burma after the collapse of the movement there. The Reserve Bank's suggestion that if a member who had paid one-fourth the total number of instalments then could not pay the rest, he should be allowed to get one-fourth of his land, is eminently fair.[188]

A marked tendency is discernible to put the burden of taking action against defaulters upon the Co-operative Department, which naturally is weakening to the managing committee's sense of responsibility. The department in Punjab was refusing at the end of 1945–6 to make further recoveries except for societies under liquidation or in the class scheduled for liquidation unless improvement was effected.[189] The committee's reluctance is understandable where, as in Punjab[190] and even in Mysore,[191] village resistance to coercive measures against individuals is sometimes encountered. In one case in Punjab, when conditions were hardest, the resistance did not stop short of the murder of an execution agent and the nephew of a zealous society president.[190] That is happily exceedingly rare. A more frequent difficulty has been that the defaulters have often included managing committee members themselves, which embarrasses them in bringing others to book. The Registrar's power of cancellation of the registration of a society, added to the central institution's power of withholding finance should, however, furnish the necessary incentive to take action against defaulters, once the committee members have been sufficiently educated in the privileges and responsibilities of co-operation.

Not all village societies can be expected to have the

energy displayed a number of years ago by one at Dehra Dun in Uttar Pradesh, where a member declined to pay his dues, with resulting danger of a loan being refused to the society as a whole. The other members waited until he had converted his produce into cash and then surrounded his house and threatened to pull his roof down. He paid up promptly.[192]

In some states there has been considerable difficulty in getting the necessary co-operation of the authorities in enforcing arbitration awards.[193]

The mortality among primary societies has been disturbingly high. In connexion with Sir Malcolm Darling's investigation of the co-operative movement in the major provinces on behalf of the government, he found that, by the end of 1934, 24 per cent of all societies started since the beginning of the movement had gone into liquidation, the percentage being as high as 49 in the Central Provinces and Berar.[194]

The Reserve Bank warned in its Statutory Report, 1937, that 'liquidation not only kills the society but brings the movement into disrepute and leaves a void in the structure of agricultural finance'.[195] Too hasty resort to compulsory liquidation, moreover, may make recoveries more difficult, and invite the alienation of property still possible under the existing legislation.

More than half the societies in Bhopal had been weeded out by 1941–2.[196] In Berar in 1938, 45·7 per cent of all primary societies and 44·5 per cent of members were under liquidation or award.[197] Figures showing the number of primary agricultural credit societies brought under liquidation at the end of 1961–2 may be noted in respect of some states. The number was 353 in Gujarat, 519 in Kerala, 1,361 in Madhya Pradesh, 166 in Madras, 808 in Maharashtra, 137 in Orissa, 835 in Punjab, 346 in Uttar Pradesh and 3,622 in West Bengal. The percentage which societies under liquidation represented of the total number of societies had increased in more than one-third of the provinces and states between 1938–9 and 1945–6, though a general decrease from 8·7 to 6·3 per cent was recorded in the Reserve Bank's

computation.[198] At the end of 1961–2 there were 22,161 societies under liquidation, representing 6·48 per cent of the total number of societies, consisting of 33 central banks, 11,552 agricultural credit societies, 2,382 non-agricultural credit societies and 8,194 non-credit societies. The total liabilities and assets of societies under liquidation at the end of 1961–2 were Rs 13·03 crores and Rs 8·11 crores respectively. Obviously, it would be quite premature to proclaim the movement well out of the doldrums even yet.[107]

An increase in the percentage of societies under liquidation is not altogether a bad sign where the movement has been in a bad way and things have been allowed to slide. But it is necessary to remember that, as the Reserve Bank observed in 1941, more than surgical treatment is required to restore the co-operative body to health. Equally necessary is 'proper observance of the indispensable rules of health, of the essential co-operative principles the neglect of which was responsible in no small measure for the plight that overtook the movement when adversity succeeded prosperity'.[117]

One of the most regrettable features of the position is the inordinate delay often found both in arbitration and in liquidation. Greater use of qualified honorary arbitrators, as in Madras,[177] may reduce the delay in connexion with arbitration, while a more adequate staff and making greater speed and efficiency worth the liquidators' while may help to reduce delays involved in liquidation. Having liquidation hang fire for years is a bad example to working societies, as the Kashmir Registrar remarked.[199] In Kashmir, with 166 societies under liquidation at the beginning of 1945–6 and 20 more liquidated during the year, a single society's accounts only were finally settled during 1945–6.[200] In 1961–2, the number of arbitration disputes pending at the beginning of the year was 106,331. The number of such cases referred to arbitration was 271,301 and 250,810 cases were settled during the year.

Liquidation before cancellation, as in the erstwhile Bombay State and north Orissa, seems preferable to the contrary practice followed in some states. It was recommended

by both the Madras[201] and Mysore[202] Committees. It keeps the society alive until all that can be done with and for it has been done; there have been cases where a society under liquidation has been got on its feet again, though such are rare, as liquidation is commonly the last resort. The Committee on Co-operative Law (1957) remarked that the 1912 Act and the Madras Co-operative Societies Act (1932) did not recognize the winding up of a society as the first stage before its dissolution. The Committee was of the view that this 'does not give an opportunity for the revival of the society which may be possible in some cases'. The Model Co-operative Societies Bill prepared by the Committee provides that the Registrar may cancel an order for the winding up of a co-operative society at any time, in any case where, in his opinion, the society should continue to exist.

One lesson which the drastic experiences of the depression years, and the unsatisfactory position of overdues in several states today, should have brought home to those responsible for the movement is the great importance of building up adequate reserves and bad-debt funds. This is of special importance in the context of India's co-operative development plans which envisage the distribution of vast sums of money through the co-operative structure. The target for co-operative credit to be achieved by 1965–6 under the Third Five-Year Plan is Rs 530 crores of short-term and medium-term loans and that of long-term credit (loans outstanding) is Rs 150 crores. It is obvious that the co-operative credit structure cannot succeed if what it lends out is not repaid punctually.

Audit and Supervision

One of the most important of the Registrar's statutory functions is audit, though he may delegate it either to his subordinates or to a non-official agency. The Madras Committee objected that the latter inspired less confidence in the public and that the departmental staff should handle most of the audit work.[203] It recommended separation of the administrative and audit branches of the department,

in the interest of efficiency.[203] The Rural Credit Survey Committee was of the view that audit should be the responsibility of the Registrar. The Reserve Bank's Standing Advisory Committee on Agricultural Credit endorsed this view at its fifth meeting held in January 1956, adding that even in those few states such as Punjab and Uttar Pradesh where audit had been taken out of the Co-operative Department, the existing arrangements might be reconsidered. The Committee on Co-operative Law (1957) was also of the view that audit should be the responsibility of the Registrar. The Committee suggested that, if necessary, the audit staff of the Co-operative Department might be constituted into a distinct branch of that department under a Chief Auditor who would be responsible to, and work under the control of, the Registrar of Co-operative Societies. The Committee also felt that the Registrar should be empowered under the Co-operative Societies Act to give a directive to a co-operative society to rectify the defects revealed by audit, on the lines of a provision in the Bombay Co-operative Societies Act 1925.

An annual audit of every society, including an examination of overdue accounts, if any, and evaluation of a society's assets and liabilities, is required by law, but pressure of work and an inadequate staff sometimes have made it impossible to include all societies in the audit, even once a year. The situation is quite unsatisfactory. Thus, as many as 220,137 primary agricultural credit societies (including grain banks) were pending audit at the beginning of 1961–2. Out of this number, the audit of 17,693 societies was pending for two years or more. The number of societies audited during 1961–2 came to only 190,105.

There has been not a little confusion about the differentiation of the functions of audit, inspection and supervision. There is no uniformity of practice, but in general the Co-operative Department assumes the function of audit, delegating it sometimes for the larger societies to approved auditors; sometimes, as in Bihar, local auditors have been relied upon for the rural societies, with test audits by the department, which seems risky. The department in a number

of states, or the central financing institution, looks after the inspection of societies, but their supervision is often entrusted to supervising unions or central banks or the department, or a combination of these.

The reconstructed banks and societies in Bihar did not have to pay any audit fee for five years;[204] 'infant societies', i.e. those under eighteen months old, were exempt from audit fees in Bengal, which in 1928–9 was making over a lakh more on audit fees than it was spending; the fees now are said to fall far short of the cost.[205] The Saraiya Committee apparently envisaged the bearing of the audit cost by the government,[67] but today free audit for primary societies is the exception, not the rule. The Fifteenth Conference of Registrars recommended that audit be entrusted to a special staff working directly under a Chief Auditor and the Registrar.[206]

The Royal Commission on Agriculture was opposed in principle to free audit: 'As a rule, we consider that government should spend money on education rather than audit. The audit of healthy societies is not a proper charge on the public funds.'[207]

The Maclagan Committee defined audit as involving

> not merely the preparation of the balance sheets of societies, but also a sufficient check, in accordance with such rules as the Registrar may lay down, of the list of the material assets of the members. The audit should ... extend beyond the bare requirements of the Act and should embrace an inquiry into all the circumstances which determine the general position of a society. It would, for instance, be the duty of the auditor to notice any instances in which the Act, rules, or by-laws had been infringed, to verify the cash balances and certify the correctness of accounts, to ascertain that loans are made fairly for proper periods and objects and on adequate security, to examine repayments in order to check book adjustments and improper extensions, and generally to see that the society is working on sound lines and that the committee, the officers and the ordinary members understand their duties and responsibilities.[208]

It is safe to say that this counsel of perfection is very far from generally followed. A perfunctory audit with failure to analyse the findings and to see that defects are corrected is, however, little better than none. Hence Professor V. G. Kale's recommendation for Gwalior, that an auditor should

be in charge of a particular tract for at least three years,[209] to ensure the continuity of audit desirable for making sure that the auditor's previous directions have been carried out.

The Mysore Committee's recommendation that a running audit, daily or weekly, be conducted in every society, by a member of its committee or by one or more of its members,[210] is excellent.

Sometimes, because of inadequate staff, the functions of audit and supervision are combined, an obviously undesirable practice, as the Kashmir Registrar himself recognized.[211] The Reserve Bank's Standing Advisory Committee has recorded the opinion that audit and supervision should be kept independent of each other and that supervision should be the responsibility of the co-operative financing banks.

The Gadgil Committee did well to remind us of the need, in India especially, for adopting the credit principle that 'the greater the risk the greater must be the supervision of the loan'.[212]

A commendable feature of the audit system in Madras has been the requirement that the auditors summarize immediately the defects brought out by the audit, the statement being sent to banks and federations for necessary action.[208]

The requirement is general that primary societies shall be rated comparatively on the basis of the annual audit findings, but the basis of classification is more or less arbitrary, so the results are not strictly comparable, either as between states or from year to year in the same state. The classification is guided generally, however, by the standards laid down by the Registrars' Conference of 1926, with local modifications such as the splitting of C division into two parts in Punjab and in Delhi, or the adding in several major states of the E classification, signifying utter hopelessness. The original classification is into the following categories:[213]

'A' or model societies, in sound condition in every way, observing co-operative principles and independent of outside help, except for annual audit;

'B' societies which are generally in a sound condition and capable of managing their own affairs but fall somewhat short of the 'A' standard by deficiencies in co-operative spirit and education and may even have a few defaulters;

'C' societies, the mediocre group, wherein most societies, like most individuals in real life, fall, having their shortcomings but muddling on; and

'D' societies in a bad way, over which hangs the threat of cancellation if they do not improve within two years, and which are supposed to receive no fresh loans from their central institutions.

The Rural Credit Survey Committee, reporting in 1954, stressed that there should be uniform standards of audit classification on an all-India basis for the various categories of co-operative societies since the 'existing standards are so varying as to cause a great deal of confusion'. The Committee noted the Reserve Bank's attempts to evolve a uniform system of audit classification of co-operative banks.[214] In a circular letter issued in November 1962, the Reserve Bank indicated that the working of agricultural credit societies should be assessed under the four broad heads of (1) capital structure, (2) credit and financial stability, (3) management and (4) general working of the society, including supply, marketing and processing functions, etc. Marks should be allotted to the different heads as given in the circular and the societies should be classified on the basis of the total marks obtained. Those getting 60 per cent and above would be classified as A; those getting between 50 per cent and 59 per cent as B; those getting between 35 per cent and 49 per cent as C and those getting less than 35 per cent as D. Societies would not be eligible for the A and B classes unless they satisfied certain minimum standards. For instance, no society should be classified as A or B, the proportion of whose overdues to demand under principal exceeds 20 per cent (for A class) and 25 per cent (for B class).

In practice, the sword theoretically hanging over D class societies has sometimes not fallen for years on end, as in Punjab during the depression. According to available data, A and B class societies outnumbered C class in 1960–61 only in a few states such as Gujarat, Maharashtra and

Mysore. It may be mentioned, however, in extenuation of the relatively poor showing as far as A and B class societies are concerned, that a veteran co-operative official, Mr H. Calvert, admitted in 1939 that, though he would not have the classification altered, 'no English joint-stock bank would ever be classed A and probably not B'.[215]

The number of societies 'not classified' seems unduly large in certain states, among them several in which the movement has been weak. It is understandable that new societies should receive no rating. If societies are to be classified at all, however, why, for example, should a substantial number of primary societies in some states have remained unclassified in 1960–61 ? Data for that year show that out of about 212,000 agricultural credit societies, about 12,000 societies were audited, but not classified.

A differential in interest charges to A and B class primary societies and those to all others, as an incentive to efficiency, would be passing on to the lower co-operative levels the benefit of the Reserve Bank's reservation of its short-term accommodation mainly to A and B banks. But in so far as privileges go with the higher rating, it becomes essential to make the classification subject to review on the appeal of any society. One which considers that it has been unfairly treated in being assigned to a lower category can ask the Registrar to reconsider it; sometimes he has raised it on appeal.

Opinions differ as to the number of societies one auditor can handle satisfactorily. The Maclagan Committee contemplated original audits being conducted by representatives of the co-operative societies, with super-audits at two-year or, later, at three-year or longer intervals, so that each government auditor could be in charge of 200 or 300 societies.[216] But that was before the disastrous demonstration of the possibilities of a too slack rein. The Co-operative Planning Committee suggested 50, but in practice the number of societies to an auditor is often far in excess of this. In Ajmer-Merwara, for example, the Registrar anticipated in 1946–7 that the number per auditor in the following year would be 125.[217] The Provincial Banking

Enquiry Committee (1929–30) in Bengal declared the auditing of 160 primary societies, which had been expected of a single auditor in that province, 'a physical impossibility'.[62] In Bihar there were only 150 auditors in the Co-operative Department in 1955 while the societies due for audit numbered 16,202. This was typical of many other states too and the All-India Rural Credit Survey Committee referred to the general complaint that audit staff is neither adequate nor well-trained and that audit in several states is heavily in arrears. The minimum standard for audit staff expected under the co-operative development plans is one auditor for every 20 large-sized credit societies and one auditor for every 45 small credit societies and miscellaneous societies.

It is not surprising, in view of the inadequacy of the staff in many Co-operative Departments, that numerous societies remain unaudited. In 1960–61, as many as approximately 26,800 agricultural credit societies remained unaudited. The number of unaudited societies in that year was 736 in Assam, 3,626 in Bihar, 1,273 in Kerala, 1,449 in Madhya Pradesh, 789 in Madras, 3,781 in Maharashtra, 1,233 in Orissa and 10,802 in Uttar Pradesh. The Indore Registrar remarked in an old report that his department was 'yet to be equipped for the work of audit of urban societies'. Only 22 out of 50 were test-audited that year.[218]

The same complaint of inadequate staff is made in connexion with inspection. The Saraiya Committee recommended one inspector to every 100 societies.[219] In Punjab in 1939 there was one in charge of 200 to 300 societies.[220] Recent information relating to 1962 goes to indicate that the number of co-operative inspectors has increased in Punjab. The inspector outranks both the auditor and the supervisor and in the Saraiya Committee's pay scale receives about twice as much, Rs 145 per month, whereas the auditor and the supervisor each get Rs 73.[221]

The Maclagan Committee laid down as a proper condition of registration the availability of proper supervision.[54] Unfortunately this sage advice has many times been lost sight of in the zeal for numbers. The Hyderabad Registrar

declared in his report for 1943–4: 'Slackness in supervision has been one of the main causes of the failure of a number of societies and a general deterioration of the movement.'[222]

The supervisor's primary duty of course is to educate the society and especially its officers in their work, but in many cases he also arranges for the disbursement of loans to the societies from the central banks and sees to their proper distribution to individual members. He also sometimes keeps the books and makes recoveries. The Registrar in Hyderabad remarked after enumerating the duties of the supervisor—'the pivot of the co-operative structure'—that 'his task is arduous and unpleasant and yet he is the lowest paid man with unsecure and unattractive terms of service'.[223]

The qualities desired in a supervisor, as outlined by the Bombay Supervision Committee in 1933 were 'experience and knowledge of rural conditions, local influence, if possible, and certainly the ability to get close to agriculturists'. Also, 'enthusiasm, integrity and knowledge of accounts and co-operative principles'.[224] The last two might well have come further up the list! But whether supervision is under the direction of the central banks, as in Orissa, or of local unions assisted by the central banks, as in Madras, or of district supervision committees under the control of a provincial (now state) board of supervision, as now in Maharashtra,[225] the agency is less important than the right sort of men.[226] There is widespread complaint that men of the right type are difficult to get for the meagre salaries offered. The Bengal Registrar remarked in his report for 1945–6 that the supervisors, trained at the Co-operative Training Institute, were 'required to do most arduous work with inadequate remuneration'.[227] The same criticism holds good even today. The existing staff for supervision is generally inadequate and in the majority of states one supervisor has to attend to several societies, sometimes ranging up to 60. The pay of the supervisory personnel is also reported to be poor, acting as a bar to the entry of the right type of persons.

The low pay of supervisors is said to lower their prestige and influence with the members, while their frequent lack of knowledge of co-operative principles can only mean that they often give the societies in their charge a bad lead. One would think, from the frequent references to 'disciplinary action' against supervisors, that the need for a higher type of supervisor, properly educated for this very responsible work, would be apparent. It is surely penny wise and pound foolish to let the movement come to such a pass that a large government outlay is required to save it, when adequate supervision might have kept it sound at a fraction of the cost of rehabilitation.

The Gadgil Committee said that the supervisory staff should be paid by the government, but this would mean a further step in the tightening of official control. It is common for societies to pay a contributory fee, often inadequate, towards the cost of supervision, though certain central banks, as in north Orissa, did not demand the contribution from societies that borrowed from them,[228] while in south Orissa societies with unlimited liability paid no fee. This, however, underwent a change and central banks in the state continued to collect supervision fees from their affiliated societies to meet a part of the cost. Most central banks did not collect the entire supervision fees due to them. Supplementary contributions from the government to the cost of supervision have been common but generally inadequate.

The Saraiya Committee recommended one supervisor to 25 societies.[219] The Madras Committee (1940) held that for intensive supervision of agricultural credit societies there should be one to each 15 societies.[229] It remarked, however, that 'to devise a satisfactory scheme of supervision of village societies on a provincial scale seems to us to be beyond the range of practical politics'.[230] The minimum standards for supervisory staff, according to the co-operative development plans, is one supervisor for every 15 large-sized credit societies and one supervisor for every 25 small credit societies and other societies.

Distribution of Profits

In regard to the distribution of profits of co-operative societies, the Act of 1912 provides:

> No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members:
>
> Provided that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by-laws.
>
> Provided also that in the case of a society with unlimited liability, no distribution of profits shall be made without the general or special order of the local government in this behalf.
>
> Any registered society may, with the sanction of the Registrar, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent of the remaining net profits to any charitable purpose, as defined in Section 2 of the Charitable Endowments Act, 1890.

Rebates and bonuses to members out of surplus profits according to the volume of their deposits or their borrowing are, of course, legitimate, but it is recognized, at least in theory, that the accumulation of profits should be no part of the aim of co-operative credit societies. In several states, no dividends on shares of unlimited liability societies are paid. The maximum rates for dividends of societies with limited liability are commonly fixed, but vary somewhat from state to state, with a maximum of 10 for the usual dividend in several, and a minimum of 1 per cent, subject, of course, to there being any profits to distribute, which is by no means generally the case.

The portion of the net profits which may, with the Registrar's permission, go to any common-good purpose is sometimes less than the 10 per cent allowed by the Act of 1912 or the 20 per cent allowed by the Bombay Act.[231] In Mysore the limit is 15 per cent;[232] in Travancore it was only 7½ per cent.[233] While education, medical relief, free reading rooms, etc., have all been beneficiaries of co-operative societies in several areas, a common shortcoming of the co-operative movement in India, as compared with certain other countries, has been its relative self-centredness.

It is well to have such restrictions as to the portion of the profits that can be devoted to the common good as the efficient working of societies may require, but the provision of village amenities out of the society's surplus funds has generally fallen short of what might have been expected in the light not only of foreign co-operative performance but also of Indian traditional bounty. The digging of a public well; the planting of a shade-tree beside the road; the erection of a rest house for travellers—such forms Indian charity has taken from most ancient times.

This defect of the Indian co-operative movement has not gone unnoticed. The objects of societies in Bihar and Orissa were widened, in accordance with a circular from the Registrar as early as in 1926, to include, besides credit, thrift, sanitation, medicine and recreation, the creation among members of 'a spirit of service, of mutual help and tolerance among all castes and creeds, by utilizing all occasions when help and service are needed by undertaking joint work for common village needs, such as the excavation of a tank or a well for drinking water or the construction or improvement of the roads'.[234] More is needed than the writing of good intentions into the by-laws.

There are striking exceptions, like the Bengal cultivators' society which in the twenties was reported to have spent about Rs 12,500 in subsidizing schools in its area. In Mysore the Thogatageri village society, with a membership chiefly of weavers, had in the thirties transformed the hamlet which, as an *inam* (privately owned) village, had no part of the revenue spent on the people. The society had started schools, made lighting and conservancy arrangements, built bathing ghats and instituted weaving scholarships, furnishing an outstanding example of the social possibilities of co-operation, though, unfortunately, over-dependent upon the vision and initiative of a few, it later deteriorated. To take a recent instance, the Sridharpur Co-operative Bank, which is a primary credit society with unlimited liability, in the Burdwan District of West Bengal, has established a primary school and a library. It also gives medical help to the poor.

The Registrar's statutory check on the purposes to which common-good funds may be devoted may in some cases act as a deterrent to local social expenditures. There were stray instances reported in 1963 of co-operative banks being permitted to contribute to the National Defence Fund out of their common-good funds. While this would ensure their donations being wisely used for the public benefit, it might well leave worthy local causes languishing.

Some societies outside the credit field, such as the numerous cane marketing societies in Uttar Pradesh and in Bihar which have undertaken village welfare activities, have devoted their common-good funds to the improvement of roads and of water supply, medical aid, education and thrift promotion.[235]

The Committee on Co-operative Law (1957) noted the provision in the Bombay Co-operative Societies Act for compulsory contributions for co-operative education to the Bombay Provincial Co-operative Institute (now called the Bombay State Co-operative Union) out of the net profits of a society under certain conditions. Similar provisions existed in some other states too, such as West Bengal, Orissa and Mysore. The Committee recommended that every co-operative society should be required by law to contribute to a co-operative education fund at a rate to be prescribed by the state government.

NON-AGRICULTURAL CREDIT SOCIETIES

Separate figures are not available for non-agricultural rural credit societies, but they form a relatively unimportant group, both numerically and in volume of business. Mr F. B. Wace remarked in 1939 that such societies consisted largely of menials and were generally not a success 'because their members have small assets and uncertain income, and their moral and educational standards are low'.[236]

There is doubtless some overlapping in the classification, as many societies designated as industrial have credit as

their major function but, taking the classification as it stands, there were 12,477 non-agricultural credit societies in 1961–2, as compared with 9,348 in 1954–5. Working capital and loans advanced by the societies rose from Rs 78·32 crores and Rs 62·12 crores to Rs 164·93 crores and Rs 161·63 crores. Deposits, which amounted to Rs 102·68 crores formed about 63 per cent of the working capital; overdues formed 6·29 per cent of the loans outstanding. It is noteworthy that Maharashtra and Madras together accounted for about 42 per cent of the membership and 43 per cent of the loans advanced by the societies in 1961–2.

Limitations are placed on the ratio of total liabilities in deposits and loans to the subscribed capital. The maximum is sometimes ten times the value of the owned capital.

Non-agricultural credit societies may be divided in general into banking societies, large and small, which aim at doing general banking business, financing traders, entrepreneurs and other groups; and societies for salary or wage earners. Urban banks form the most important single group under non-agricultural credit societies.

Urban co-operative banking is most highly developed in Maharashtra and Madras, where it occupies an increasingly important position in the general credit structure, practically every town having a co-operative bank. Among their contributions to the solution of the country's banking problems may be mentioned their helping to popularize the use of cheques.[237] Of the 1,242 urban banks in the country in 1959–60, 622 were in West Bengal, 148 in Madras and 141 in Maharashtra. It is noteworthy that the urban banks in West Bengal in 1959–60, had a working capital of Rs 29·02 crores of which 74 per cent consisted of deposits. The number of urban banks in the country increased from 826 in 1957–8 to 1,242 in 1959–60. Their total deposits in 1959–60 came to Rs 60·70 crores out of which Rs 27·07 crores were from non-members. These banks advanced loans to the extent of Rs 64·72 crores in 1959–60.

Such banks are almost indistinguishable in their functions from commercial banks. They have fixed, savings and

current accounts, their clientele including non-members as well as members. Their chief business is in short-term credit, long-term credit being generally recognized as outside their field. The Bombay Banking Enquiry Committee believed that urban banks should not be allowed to finance artisans' societies, which it held to be the legitimate province of the central banks,[237a] but much more recently the Madras Committee on Co-operation recommended that where no societies for crafts, arts and small-scale or cottage industries existed, the urban banks should be entrusted with organizing these and financing members of these classes with caution, by cash credits, etc., to save them from exploitation and to raise their living standard.[238] Recently, it has been suggested that urban banks can play a very useful part in the promotion and development of small-scale industries. The Bombay State Urban Co-operative Banks' Conference held in August 1957 in Bombay urged urban banks to finance cottage and small-scale industries and recommended that 'the Reserve Bank of India should, in collaboration with the Bombay State Co-operative Banks' Association, sponsor a survey of the problems confronting urban banks including their organization, methods of banking business and their ability to assist the small-scale producers within their fold'. The survey has since been undertaken by the Reserve Bank. It covered a sample of about 100 urban banks, spread over nine states. The main object of the survey was to find out the pattern of the sources of funds and of the lendings of the urban banks and their part in providing credit to small-scale industries.

The *Report on the Survey of Urban Co-operative Banks* (1957–8), published in 1961, shows that the development of urban banks has been uneven. Even where urban banks exist, their membership constitutes only a small proportion of the total population of the towns served. The report has stressed the need for a positive programme to set up such banks in all urban centres. It has been emphasized that in their loan policy, urban banks should adopt a sufficiently wide and diversified system. For instance, loans to small entrepreneurs represent an important line of future development.

The report has referred to the need for ensuring soundness in urban banks by measures such as giving up of non-credit activities of the trading type, improvement in the accounting and operational arrangements, and steps to eliminate overdues.

Urban banks give accommodation on the security of agricultural produce and other merchandise, on personal security or on the pledge of gold and silver, life insurance policies, government securities and on real property.[239] They also finance their members for industry and trade. The average working capital per bank in Maharashtra at the end of 1959–60 was Rs 18 lakhs, followed by Gujarat (Rs 12 lakhs), Madras (Rs 6·6 lakhs) and West Bengal (Rs 4·7 lakhs). The amounts which may be lent to any member without mortgage or other tangible security are limited under the by-laws.

Non-members are welcomed for other business, except the discounting of bills, on an equal footing with members, but they do not, of course, share in the dividends or in any bonus paid sometimes to members on the basis of the volume of their transactions with the bank.[240]

The value of competent management has been shown convincingly in Maharashtra, where the urban banks' fine record owes much to the efforts of philanthropic financiers like the late Sir Lalubhai Samaldas and his son, Shri Vaikunth L. Mehta, Shri R. G. Saraiya and many others.

Except in a large city, one urban bank to a town is preferable, not only from the point of view of financial strength and stability, large transactions and adequate staff but, as also pointed out by the Madras Committee in 1940, because it avoids the problems of overlapping jurisdictions and undesirable competition for securing deposits or business. That Committee also stressed the desirability of members' not joining and borrowing from more than one credit society, even of limited liability type, except a land mortgage bank or a house-building society.[241]

Provident schemes have been a feature of several urban banks in Mysore,[242] as well as of both urban and central banks in Bengal and elsewhere, small monthly payments

securing to subscribers a fixed sum, including a good profit on their deposits, at the end of a certain period.[243]

The urban credit societies in general are on the Schulze-Delitzsch model, with the working capital derived chiefly from deposits and share capital,[244] and with limited liability, which applies either to the amount, if any, unpaid on shares held by individual members, or to such amount as the members may undertake to contribute respectively to the assets of the society in the event of its being wound up. The amount for which individual members are liable must not be less than the share value, and the amount of liability attaching to each share must be fixed by the by-laws. A society cannot reduce the liability on each share without reconstitution, but it may reduce total liability, with the sanction of the Registrar, by reducing the number of shares.[245] Profits may be divided after the required 25 per cent is set aside as a contribution to the reserve.[246]

The *Report on the Survey of Urban Co-operative Banks* has pointed out that the all-India average borrowing rate of urban banks moved up from 2·4 per cent in 1955–6 to 2·8 per cent in 1957–8. However, the average lending rate showed a slight fall from 7·2 per cent in 1955–6 to 7·1 per cent in 1957–8.

The dangers of large societies are negligible on the urban side of co-operative credit, the quantitative factor in regard to membership almost balancing the qualitative. Too small a scale in city banks is only too likely to mean inefficient management and staff and unbusinesslike methods. Attention should be drawn to a defect often overlooked, i.e. that too close a tie between members, in addition to facilitating thorough knowledge of the borrower, which is desirable, fosters sentiment and backstairs influence, which are not.

The safe expansion of co-operative societies' activities, either in size or in complexity, depends largely on competent staffs. The larger co-operative banks include among their members and directors the best educated and qualified men available.

Unlimited liability is sometimes found in non-agricultural credit societies, in the case of groups having few assets, like

petty traders, artisans and menials.[247] Of the 12,477 societies in 1961–2, 2,129 were on an unlimited liability basis.

The considerable increase in deposits in the last few years of course reflects the increase in the income of many during the war years, though increasing hardship was experienced by those with fixed incomes, due to the rise in prices generally. Deposits serve a very useful purpose in checking inflation, but beyond the point where they can be profitably invested, the interest payments on them represent a handicap. The Bombay Registrar reported the banks flooded with deposits in 1946–7, though their reduced interest rates could stand comparison in most cases with the prevailing rates of joint-stock banks of comparable size.[237] The Registrar's report for 1955–6 noted that many of the urban banks could well be compared to joint-stock banks of their size. However, urban banks in Maharashtra have since been complaining of competition from commercial banks in attracting deposits, and that this competition was having an adverse effect on the working of co-operative banks.

A free field is left to co-operative banking in the 60 per cent of the 2,703 towns in India which the Co-operative Planning Committee reported were not served by joint-stock banks.[248] The Rural Banking Enquiry Committee (1950) stated that out of 1,954 towns in the provinces, 701 were served by scheduled banks. As many as 869 towns did not have any banking facilities, including 492 places which were either district or taluka headquarters. This may be supplemented by a reference to the position of urban banks in the context of rural banking development. Available information, which is not, however, complete, goes to show that out of 1,129 towns with a population of 10,000 and over in the states for which information could be obtained, only 491 towns had urban banks, some towns having more than one urban bank each. Elsewhere, it has been reported, as in Bombay, there has been some demand for permission for well-developed urban co-operative banks to convert themselves into joint-stock concerns. The Saraiya

Committee bases its rejection of this proposal on the ground that, to say nothing of the Co-operative Department's past counsel and assistance, such a change would be an abuse of the concessions from the state in the matter of taxation, audit charges, etc., which had assisted considerably in the development of such banks and the building up of their reserve funds. Such concessions had been given to enable the banks to serve the small and the middle-class man, only too likely to be neglected if the co-operative bank were allowed to convert itself into a capitalistic enterprise. It is not profit for shareholders at which a co-operative institution should aim, but service of its members 'at the cheapest possible cost consistent with soundness and solvency'.[248]

It may be suggested on the other hand that the more emphasis placed by such institutions on the strictly commercial aspect of their business, the less entitled would they seem to be to privileges at the taxpayer's expense. The co-operative movement has so much more ground to cover than it can conceivably manage to do within the next few years that there need be no effort to hold institutions desiring their freedom and apparently fully capable of surviving on their own. As shareholders, the members should be able to stipulate at the time of the transfer that their credit needs would continue to be met on reasonable terms. And it would always be open to them and to others to organize their own co-operative society. Meantime the Co-operative Department could free its efforts and resources for enterprises which both need and want them.

Apropos of interest rates in the light of the purpose which these urban societies are designed to serve, it would seem that, low as the rates on lendings may be today as compared with the earlier years of the movement and with those of agricultural societies at the present time, the urban banks' rates are in many cases still too high for the classes which they largely serve. When a bank with a lending rate of $9\frac{3}{8}$ per cent declares a dividend of $7\frac{1}{2}$ per cent on shares, one must wonder whether a cheaper lending rate should not be offered.

There are, of course, restrictions on the investment of surpluses. The Co-operative Planning Committee favours relaxing the requirement that surpluses must be invested in government securities, etc., which naturally carry the low rate of interest which their dependability makes acceptable to the public. The Committee would permit urban banks (after due provisions for fluid resources) to invest the surpluses in gilt-edged securities or to deposit them in banks approved by the Registrar, a proposal not favoured by the Fourteenth Conference of Registrars. The Fifteenth Conference of Registrars, however, recommended that the surplus funds of urban banks should be deposited in the provincial and central co-operative banks for financing societies. If not needed by them, it recommended, 15 per cent of the surplus, after providing for fluid resources, might be invested as unanimously decided by the board of each urban bank, subject to such terms as the provincial government might lay down.[249] This recommendation was endorsed by the All-India Rural Credit Survey Committee.

Membership in the ordinary people's bank is properly not limited to a special caste or occupation. Credit societies on a communal or a caste basis, however much they are frowned upon, have often been successful, so far as their working goes, but anything that strengthens the divisive spirit in India today must be deplored.

The devices to encourage thrift, thereby counteracting the tendency found in many urban societies to borrow rather than to save, are several. Compulsory deposits have been tried,[249a] and also the recurring demand deposit—one made by a person who undertakes to pay to the society every month a fixed amount for a certain period, at the end of which the amount of deposit with interest at a preferential rate is paid to the depositor.[248] A variant recommended for extension by the Madras Committee on Co-operation is the 'day-deposit' scheme, obviously most suitable for a small-scale credit society with a compact area. Under this, each member makes a fixed deposit daily of 25 paise to a multiple of Re 1. At maturity the amount due for refund is

either paid to the depositor or credited to his loan, if any.[238]

The same Committee urged that the urban banks undertake a vigorous and sustained thrift campaign, linking savings with particular purposes, e.g. long-term deposits for house purchases, short-term for trading needs, etc.[39] For the full success of such a project, assistance in budgeting would in very many cases be required, for which education in family budgeting as well as in economics would be of value to the members.

Another common device for encouraging thrift and discouraging unproductive loans in salary-earners' societies is to limit the amount of the loan to a given multiple of a member's deposits or of the shares held by him, or to a fixed multiple of his monthly salary. Such fixed maxima also go far to ensure impartiality in the handling of loan applications.

Credit for consumption is a risky business at best, and controlled credit is especially necessary in the salary-earners' and mill-hands' societies, where loans are sought as a rule for purposes which, however necessary, cannot be called productive in the sense that repayment can be expected out of the proceeds of the funds employed. The salary-earner's sole assets may be his honesty and his ability to save, and the possible margin between his earnings and his unavoidable expenditures may be the only security he has to offer.[250]

If a man's earnings, with his best efforts, will not stretch to cover his absolutely necessary expenditure, and there are too many such in India, he may be a proper object for charity until the grave deficiencies of the Indian wage scale can be corrected, but there is no place for him in a credit society.

Among the most successful of the salary-earners' societies are the railway societies and those for the employees of certain government departments. Many a private firm also has its own credit society. The employees who belong to such co-operative societies have at least nominal control, but where dues to the society are deducted before salaries are paid, we have the urban version of 'controlled credit',

with equally little of the potential moral benefits of the co-operative movement.

A co-operative credit society should be recognized as essential to any well thought-out plan for industrial welfare. The companies which have launched them with their own financial assistance, as part of their welfare programmes, have made a good investment. The Central Banking Enquiry Committee believed that employers, in their own interest, should pay greater attention to the provision of credit facilities for their employees and also should take more part in the supervision of societies started for their benefit.[251] In such societies the fiction of supreme control vesting in the general members' meeting is maintained, but their success depends largely on the interest taken by the firm and especially on its co-operation in deducting dues from salaries. How essential the latter may be was illustrated in the pre-depression days in two societies of the Golmuri Tinplate Company in Bihar and Orissa, out of whose entire loan outstanding against members—Rs 28,744—Rs 27,413 became overdue.[252]

Where the company co-operates by such deductions, bad debts are negligible, provided there is reasonable security of tenure. It is chiefly the rapid turnover among mill-hands that makes societies for the poorly paid groups of wage-earners more hazardous. Limited liability societies in Delhi, mostly of employees though a few admit other members, had in 1945–6 only 56 'defaulters' out of 4,539 members, and 40 of the 56 were deceased ! The average indebtedness per member was Rs 289. The societies were running almost entirely on their owned funds, which totalled Rs 9 lakhs.[253] Subsequent reports from Delhi showed that a striking feature of the working of the limited liability non-agricultural credit societies was that almost all of them, with the exception of those functioning for displaced persons, were working with their owned funds.

Maharashtra has factory-workers' and salary-earners' societies with a substantial working capital and members' deposits. Some had opened fair-price shops and undertaken the joint supply of domestic requirements.[254]

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The managing committee in 'company' credit societies is very likely to be dominated by its *ex officio* members. Such an *ex officio* officer was chairman of the annual meeting of one employees' society in a large industrial establishment which the writer attended. They went through all the motions of nominations, elections, and passing of resolutions, but everything was cut-and-dried and evidently according to a pre-arranged programme. When nominations were called for, one member rose and read a list of names to which no additions were offered, and the slate was elected unanimously. Resolutions similarly were read when called for by the chairman and passed without discussion. Such highly centralized control as this would seem to indicate is scarcely democratic or in harmony with co-operative principles, and must fail in one of the chief objects of the co-operative movement, namely, the education of the members and the increasing of their sense of responsibility and their initiative.

There has been some complaint of the overdues to urban banks and societies. Though the position was good in general in Bombay, where in 1946–7 overdues averaged only 6·8 per cent of individual loans outstanding,[237] the Berhampur Urban Bank, the largest in Orissa, with a working capital of nearly 10 lakhs, had overdues at the end of 1945–6 of 34·2 per cent[255] although in 1955–6 it earned a net profit of Rs 40,687. In 1959–60, the 1,242 urban banks in the country had loans outstanding of Rs 57·89 crores of which Rs 4·15 crores were overdue.

The raising of the non-attachable limit of salary from Rs 20 to Rs 100 by the amendment of the Civil Procedure Code in 1937 is reported to have proved a handicap to recoveries. Bengal and Bombay have amended their respective Co-operative Societies Acts to safeguard co-operative societies' interests.[256] Rs 100 may be somewhat too large an exemption from the point of view of the co-operative society, but surely Rs 20 was far too small for fairness to the dependents of the defaulting member ! The Committee on Co-operative Law (1957) noted that if an employer could deduct from the salary of an employee every month the

instalment due from the employee towards a loan obtained from his co-operative credit society, the working of such societies could be greatly facilitated. The Committee added that there was no such provision in the 1912 Act or in the Acts in force in most states. The Model Co-operative Societies Bill prepared by the Committee provides for deductions from an employee's salary to meet his dues to the credit society, if the employee executes an agreement to this effect.

The record of urban credit societies of unlimited liability among the depressed classes has been encouraging in some states. Their mortality rate has, however, been high, which is not surprising when one considers the background and the ignorance of many of this underprivileged group. For the conservancy force in the larger cities, where the co-operation of the authorities can be secured for the deduction of co-operative dues from meagre wages, as was the practice in the Central Provinces and Berar,[257] co-operative credit holds a great hope, provided it is linked with educational and social efforts on the sweepers' behalf. Such societies were found by the Bengal Banking Enquiry Committee in 1929–30 to have been highly successful in that province. Members had been free from debt to moneylenders in most cases and the standard of living among the members of several societies had appreciably improved.[258] The old Indian States appear to have led in efforts for the benefit of the depressed classes, though the desirability of bringing their members increasingly into co-operative societies of mixed membership had been recognized in theory. Baroda had twenty-five sweepers' societies in 1944–5.[259]

The role of urban banks in providing rural credit has come up for consideration in some instances. In Madras urban banks issue loans, to a limited extent, for agricultural purposes. In some cases, they also helped their agriculturist members by issuing loans on the pledge of agricultural produce, merchandise, etc. The Committee on Co-operation in Madras (1956) saw no objection to these activities. The All-India Rural Credit Survey Committee had no objection to urban banks financing rural societies as a transitional

measure in areas where central banks or branches of the apex banks were not functioning. The Committee had also no objection to urban banks extending their operations as regards loans against pledge of gold and agricultural produce to villages within five miles, if there were no primary agricultural credit societies in the villages concerned. The Committee added that the granting of loans by urban banks against agricultural produce should be allowed only in areas where co-operative marketing societies are not functioning. A few years ago, the Madras Registrar put forward the request that the Reserve Bank's scheme of concessional finance should be extended to urban banks in respect of their loans to agriculturist members. The Reserve Bank's Standing Advisory Committee at its seventh meeting held in October 1957 stated that there was no case for such assistance. This decision is to be welcomed. The primary object of urban banks is not to finance agriculturists. If necessary, an agricultural credit society can be formed to cater for the credit needs of the agriculturists in the area of the urban banks concerned.

NON-CREDIT SOCIETIES

While credit is and must remain for some time the chief concern of the co-operative movement in India, development in other lines has been steady, if relatively slow, since 1912, when non-credit societies were brought officially under the aegis of the movement.

In Mysore, in the beginning, societies for agricultural, industrial and distribution purposes formed a major portion of the total number;[260] that was, however, the exception.

Mr F. B. Wace remarked in 1939 that 'the considerable and steadily growing strength of the non-credit side of the movement, improving as it does the economic position of the peasant, adds greater stability to the credit side, quite apart from its educational and moral influence.'[261]

As it stands, however, the national classification is far indeed from giving a clear picture of the development in the

various lines. A more logical, if somewhat more complicated, classification of non-credit societies according to their main function seems to be into marketing societies, purchasing or consumers' societies, better-farming societies, industrial societies, housing societies, transport societies, labour contract societies, better-living societies, societies for women, societies for the depressed classes, and others. Better-farming societies may be taken to include, for the purpose of our study, societies for the consolidation of land holdings, societies for irrigation and land reclamation, societies for cattle and sheep breeding, milk societies, collective-farming societies and co-operative colonies. In the better-living category we may place not only those societies so called but also health societies, education societies, societies having thrift as their main object, and arbitration societies. Forest societies will be bracketed with labour contract societies. There will still be, regrettably, unavoidable overlapping, because of many societies having practically co-ordinate functions, such as the purchase and sale unions and the industrial societies which have purchase and sale as their chief co-operative activities, and the multipurpose societies. The former will be classed arbitrarily with marketing societies for consideration, as will loan and sale societies, while societies of industrial workers will be considered together here, though many of these have credit as their primary function. Societies of agriculturists having the processing of agricultural produce as their main function will be considered along with marketing societies, much of such co-operative processing being carried on by marketing societies as a subsidiary function.

Co-operative Marketing Societies

Marketing has occupied a far smaller place in the co-operative picture in India than in many countries, notably Denmark and the United States, but no other non-credit line of co-operation, with the possible exception of the consolidation of land holdings and joint farming enterprises, seems to hold greater possibilities of help to the great agricultural population of India and Pakistan. Shri A. K.

Yegna Narayan Aiyer, prominent honorary worker of Mysore, called joint purchase and sale the most important weapon in the hands of the small farmer; 'if he does not wield it he will continue to fight only a losing battle'.

The note from Assam on the agenda for the Fourteenth Conference of Registrars (1944) mentioned 'the present exploitation of the primary producer by a pyramid of middlemen'.[262] Fraudulent practices, wrong weighing and delayed payments were mentioned by the Reserve Bank in 1941 as some of the practices of middlemen from which the cane societies of Uttar Pradesh, which handled, in 1939-40, 79 per cent of all the cane crushed in the state, had freed their members.[235]

The *beopari*, who buys the farmer's crop, may be a grain-dealer from the nearest market, a local trader, or, more rarely, the agent of some wholesale grain merchant.[263] Very commonly he is the village *bania* or trader-cum-moneylender.

The Royal Commission on Agriculture favoured the encouragement of co-operative sale societies, 'as these furnish the best means of enabling the cultivator to secure an adequate premium for produce of superior quality'.[264] Rao Bahadur S. S. Talmaki believed that the main reason the farmer still clung to the moneylender was the absence of sale and purchase organizations.[265]

The development of co-operative marketing in India is closely bound up with the problem of credit, the claims of the village moneylender commonly inhibiting the cultivator's freedom of action in disposing of his crop. Almost alone among the Banking Enquiry Committees, that for Bihar and Orissa, discouraged by the disastrous termination of certain experiments in co-operative marketing in that province, attempted to minimize the disadvantages to the producer of the prevailing marketing system.

Steps for the stabilizing of agricultural marketing were recommended by the Gadgil Committee 'in order that commercial banks may increase the volume and scope of their business in regard to agriculture'. These steps were the regulation of marketing by law, all marketing agencies

to be required to maintain proper accounts and to give the seller vouchers and statements in the prescribed form, and the establishment of licensed warehouses, the receipts of which should be made negotiable. That Committee felt that the state should, as part of its transport development plan, construct warehouses at all nuclear points of trade in agricultural produce, the warehouse system to be operated by a public corporation organized on lines similar to those of a Port Trust or an Improvement Trust. The establishment of licensed warehouses is provided for by law in several states such as Maharashtra, Bihar, Madras, Madhya Pradesh, Mysore and Kerala.

The need of marketing societies for godowns, at least for temporary storage until the crop can be disposed of, and the fact that the construction of such godowns is beyond the average society's means have been stressed and much of the considerable state help widely extended to this type of co-operation has been in the form of grants-in-aid and loans to provide part of the cost of construction.

Desirable as negotiable warehouse receipts are to the country's credit structure, however, sight must not be lost of the danger to the agriculturist, so long as price fluctuations continue uncontrolled, in holding his produce for the hypothetical better market. Experience in the United States has shown that when the charges for handling, storage and insurance are taken into account, the difference in price between the beginning and the end of the season is often relatively insignificant. The loss believed to be sustained by farmers by selling their produce at harvest time instead of waiting for a period of relative scarcity and higher prices figured largely in the early arguments in favour of co-operative marketing. How to enable producers to hold their crops for a more favourable market was within the scope of the Banking Enquiry Committees, both central and provincial, and this was the main original object of the Madras loan and sale societies, which did not at first undertake any selling, but only made it possible for the cultivator to hold his produce for a sufficient time to avoid the low prices after harvest by lending up to 60 per

cent of the value of agricultural produce placed in their custody.[266]

Speculation is now generally frowned upon, however.[267] The old jute societies in Bengal crashed spectacularly in the thirties as the result mainly of their speculative policy. The Bengal Government paid in 1946–7 the eleventh annual instalment of Rs 2,00,000 granted to the Provincial Co-operative Bank to make good the loss sustained through its dealings with them.[268] A minor crisis occurred among cotton cultivators of Bombay in 1940, when an anticipated rise in prices failed to materialize.[269] Where essential commodities are involved, holding them that they may become scarce and dear should be characterized as anti-social.

Marketing, as pointed out by the Saraiya Committee, is a complex proposition, involving many functions—assembling, storing, financing, insuring, standardizing, selling and transporting.[270] One factor in its success is the proper grading of the produce, made very difficult by the lack of uniform standards. The passing in 1937 of the Agricultural Produce Grading and Marking Act was a milestone in marketing progress. Several states, e.g. Bombay, Punjab and Mysore, passed similar Acts shortly thereafter and like action was contemplated by others,[271] so that, though there is not complete uniformity or complete enforcement even yet, a long step has been taken towards them. The Second Five-Year Plan commented on the fact that progress in the grading of agricultural produce had not been adequate. The Plan recommended compulsory grading for various types of commodities meant for export. This has been done, for instance, in respect of commodities such as tobacco, wool, bristles, chillies, cardamom, etc. Grading with regard to commodities intended for trade internally, is being carried out on a voluntary basis for ghee, oils, butter, eggs, etc.

Legislation for regulated markets for agricultural produce has been passed and to some extent implemented for specific products in some states. The total number of markets in the country is about 2,500. The number of regulated markets increased from about 470 at the end of the First Five-

Year Plan to 725 at the end of the Second Plan. During the Third Plan, it is proposed to bring the remaining markets within the scheme of regulation. The Rural Credit Survey Committee remarked that while standards of marketing have improved in most of the relatively few regulated markets which have been set up, 'a number of malpractices still exist even in these, since personnel and enforcement are two great problems, not always sufficiently attended to, much less solved'.

The popularizing of graded products has been facilitated by the use of 'Agmark' labels issued by the Directorate of Marketing and Inspection of the Government of India for products graded and packed under the supervision of the state marketing staff. The Act of 1937 was amended in 1942–3 to widen its scope to include additional products and to provide for recovering from the trade the cost involved in grading, marking and popularizing the graded products.[272] Surveys of market conditions of a large number of specific products have been conducted by the central and state governments, reports published and grades defined.

A major obstacle has been the ignorance of the agriculturists. In Orissa, for example, it was once impossible to convince tobacco growers that they would not have to pay more in taxes if their crop was brought to a central godown.[273] Farmers elsewhere have objected to pooling their produce.[274]

A greater difficulty has been the determined opposition of middlemen, which has in some cases been so strong that the co-operative enterprise has been abandoned, as in the North-West Frontier Province, where the fairly successful attempt to market potatoes on a large scale was given up, at least for the time being, largely 'because the vested interests of the middlemen were too strong for us'.[275] Collusion among purchasers has been mentioned as a danger in connexion with the sale of cotton and seeds in Hyderabad; false weights and standards, false market quotations and exactions for commission being mentioned as some of the devices where the buyers are in a position to form a ring and dictate terms.[276] The *Report of the Enquiry into Regulated Markets in the Bombay State* (1952) prepared by

the University School of Economics and Sociology, Bombay, revealed that fictitious sales and mock auctions took place in the regulated market, after an understanding reached between the cultivator and the trader outside the market.

The lack of trained and reliable workers is another common complaint, which only patient education can meet. The Bombay Co-operative Banks' Association some years ago sponsored training classes for marketing society managers, and supervisors of the central banks were specially trained for duty in connexion with marketing societies in the Central Co-operative Institute, Madras.[277] Special courses for co-operative marketing are now a regular part of co-operative educational schemes in the country.

In Bombay, initial plans called for registered purchase and sale federations for each district, to which would be entrusted the work of supervision and internal audit. Madras had a central marketing society or federation for a district or two.[278] The United Provinces (Uttar Pradesh) Department evidently once believed less in 'helping lame dogs over stiles'; if marketing societies there required supervisors 'in excess of the strength fixed for them', the full cost of the excess supervision was charged to the society concerned.[279]

Early experiments with co-operative marketing were not everywhere a success. Mr H. Calvert referred to it in 1937 as 'the most difficult form of co-operation and also the least understood'.[280] The failure of the co-operative commission shops in Punjab to extend their business was ascribed by Mr F. B. Wace partly to boycott from local traders but more to lack of members' loyalty, unbusinesslike methods of the managing committees, and dishonesty among the paid staff.[281] Like the late Sir Lalubhai Samaldas, he felt that there could be no great advance in co-operative marketing without considerable state help and control. Small and isolated commission shops, he pointed out, were gravely handicapped by small stock, a small area, limited facilities for acquiring and disseminating market information, and a low-paid staff. The lack of resources, business experience and the ability required could not eb

overcome by the union of several similarly handicapped societies, a fact to which enthusiasts for the possibilities of unaided co-operation sometimes close their eyes.

The most effective scientific marketing calls for a degree of business acumen quite beyond the average farmer or artisan in any country, and especially where literacy is generally the exception. Farmers and artisans are specialists in production, and the division of labour facilitated by turning over the marketing of their products to qualified specialists in the employ of co-operative groups is obviously in the interest of economy and efficiency.

Unfortunately, many Indian organizations for co-operative marketing have overlooked this well-nigh indispensable requirement of skilled management. A mistakenly directed zeal for economy has led too often to the selection of an unqualified manager, most often a member of the organization, many times little, if any, better qualified for the task than his fellow-members. Lack of business experience on the part of both members and officers of the department was blamed by the Burma Registrar in 1926–7 for the difficulties which sale and storage societies there had experienced.[282] This is a complaint heard in India also even now.

Some sales unions have had a committee of control, made up of non-members who are business experts, with the power of vetoing the resolutions of the executive committee and of action on important matters.[282]

A special marketing staff in connexion with the Co-operative Department as in Maharashtra is, of course, of great importance for the fostering and guidance of the marketing societies. Many Co-operative Departments have senior officers to deal with co-operative marketing.

Able managers, as the Bihar and Orissa Banking Enquiry Committee pointed out several years ago, command salaries which will increase the overhead markedly. For not in all who have mentally accepted the idea of co-operation do we find the readiness to sacrifice for the cause. It may be recalled in passing that the man who is credited with having done most to build up the wonderfully efficient

consumer co-operative organization in Britain, the late Mr J. T. W. Mitchell, never received more than £150 a year for his labours,[283] although he built up an organization with annual sales of nearly £395,000,000.[284] Since, cost what it may, able management must be had, the solution is sufficient volume to keep the unit handling cost within profitable limits. As this is impossible of attainment for the average independent sales society, the answer is obviously federation with a competent central staff.

The three methods of co-operative societies in handling and paying for farm products are admirably analysed by the Saraiya Committee. Payment on delivery has the advantages of being the usual market practice and thus meeting the competition of private traders, tending to increase the volume of purchase from non-members, and reducing the book-keeping necessary. It places on the society, however, the risk of price fluctuations, makes necessary a larger working capital and a higher-paid staff and also weakens the bond between the member and the society, as soon as the price is paid.

The second method is to pay the farmer what his individual products have sold for, after deducting the society's charges; this method requires more book-keeping and thus increases the cost of the service. Pooling the products and paying the producer the net pool price after the produce is sold, which is the third method, spreads the risks and enables orderly marketing but may encourage speculation and requires a highly paid manager.[285]

Many sale societies are simple commission agencies on a co-operative basis. Even the provincial marketing societies of Bombay and Madras worked largely on a commission basis. This is in line with the recommendation of the Maclagan Committee:

> Ordinarily we do not think that a society should itself become the owner of the commodities handled. It is preferable that it should buy or sell on commission, or on some system under which it merely undertakes joint sale and purchase on behalf of the members at their risk.[286]

The financing of the ordinary sale societies has not presented serious difficulties, the central banks being the

natural recourse when sale societies' own share capital and reserve and the government assistance which has sometimes been available do not meet their requirements. Sale societies on sound lines offer a profitable investment for some of the central banks' surplus funds, and the policy of advances against agricultural produce, even by urban banks, is well established.

The Bombay (now Maharashtra) State Co-operative Bank years ago was making a special effort to foster co-operative marketing in connexion with its branches. As early as 1913 the first branch of that bank had organized the sale of *gur* on commission and some by 1930 were handling cotton and other crops. Each branch had a shop connected with it, the profits all going to the societies. Sales of *jaggery* at one time averaged from 10 to 17 lakhs of rupees a year,[287] but most of the sales activities of these branches were taken over by purchase and sale unions organized in connexion with them, beginning in 1926, with 35 or 40 primary societies to a union. During 1961–2, there were 264 primary marketing societies in Maharashtra doing general marketing work. They borrowed Rs 1·23 crores from central financing agencies.

The provincial marketing society in Bombay had sometimes found supplying the needs of societies more profitable than selling their produce. The Provincial Development and Marketing Federation[288] established in Uttar Pradesh in 1942–3 has had the distribution of essential commodities as its main function though later other functions were assigned to it. Within four years of its establishment it had attained the position of the premier society in the state, in respect of working capital, reserve fund, annual turnover, annual profits and number of employees. However, the lifting of control over cloth affected its business to a considerable extent and the Federation experienced various difficulties.

The Bombay Provincial Co-operative Marketing Society in 1947–8 earned Rs 33,138 commission on the supply of commodities, and only Rs 5,520 on the sale of products, in which commission profits were larger than trading

profits. Fertilizers and agricultural implements, rationed commodities and other domestic requirements, etc., were supplied to societies, and fruit, vegetables and eggs handled besides the purchase and sale of sugar, *jaggery*, etc. The society also conducted a market intelligence service for societies, of evident importance to orderly marketing. It is interesting to note that the profits of many purchase and sale unions and single-commodity marketing societies were considerably higher than those of the Provincial Marketing Society,[289] whose activities had been hampered by transportation difficulties as well as by government controls. That Provincial Marketing Society is not functioning now, its activities, especially with regard to fertilizers, having given rise to a difficult situation caused by factors such as bad management and control. Subsequently, another apex society—the Maharashtra State Co-operative Marketing Society—was set up. Its activities have been confined mainly to sales of consumer goods and, to some extent, agricultural requisites.

The division of the sales activities of the erstwhile Bombay Provincial Marketing Society into sections, e.g. fruits, vegetables and eggs, grains and oilseeds, each under experts in their line, offer a pattern for the set-up of the All-India Marketing Institute, regarding which several resolutions were moved at the All-India Co-operative Institutes' Conference (1946). In the absence of such an Institute to organize selling activities and co-ordinate the needs of the different parts of the country with the available supply, the Bombay Provincial Marketing Society had to handle quantities of produce from widely separate parts of India, mangoes from Madras, peas from Uttar Pradesh, grapefruit from Punjab, etc., managing its sales with the help of cold storage to avoid a sudden glut of the market with consequent fall in price.

A pyramidal marketing structure on a state basis, paralleling that for credit, is obviously desirable, with separate sections for the major standardized lines, but how far the country is from this ideal can be judged from the reluctance of the primary units to affiliate themselves with the state

marketing societies which had been set up in Madras, Uttar Pradesh, Maharashtra and Mysore, a reluctance which it would seem could be avoided by making such affiliation a condition for registration of societies having marketing as a function.

The state governments have in some cases been generous to such societies, not only with subsidies for their establishment but also with contributions to the payment of staff. That, however, the setting of a cap-stone on a pyramid in the building may be precarious is brought out by the experience of the Madras Provincial Co-operative Marketing Society, started in 1936. It sustained a loss of Rs 93,188 in 1945–6 and of Rs 64,185 in 1946–7, after closing down several branches and depots and considerably retrenching its staff.[290] The Society is not functioning now. Another apex society, namely the Madras State Co-operative Supply and Marketing Society, was set up. Its main activities related to the purchase and sale of skimmed milk powder and the distribution of sugar, camphor tablets and soda ash through the affiliated societies, on behalf of the State Trading Corporation.

Without close federal integration, the mutuality of interest is sometimes lost sight of and suggestions are not wanting of a feeling in some instances, on the part of purchase and sale unions, that the central marketing society is a rival rather than a collaborator in a common enterprise. This attitude, it would seem, would only be strengthened by the implementing of the proposal once made, that branches of the apex society be started for the handling of the standard products which are best sold through a terminal market.

In the circumstances, proposals for an All-India Marketing Association[291] or for Commodity Corporations on a nation-wide basis[292] seem premature, however desirable as ultimate aims. However, a National Agricultural Co-operative Marketing Federation was registered in New Delhi in 1958–9 with the object of co-ordinating and promoting the marketing and trading activities of its members in agricultural and other commodities. The other important objective of the Federation is to arrange for the supply

of agricultural requirements, such as seeds, agricultural implements, etc., of its members and to promote inter-state, intra-state, and international trade in agricultural and other commodities. The value of the purchases and sales of agricultural produce made by the Federation in 1961–2 came to Rs 50·79 lakhs and Rs 57·43 lakhs respectively. A noteworthy activity of this Federation in recent years has been the marketing of jute.

In co-operative marketing, as in co-operative credit, the primacy of the interests of the producers' society has to be kept in mind. The commissions charged by the successful central societies in cases where the primary societies showed a loss would call for careful scrutiny, with a view to possible reduction.

The value of commission shops on a co-operative basis for keeping down local market charges with resulting lower prices can be over-stressed. Co-operative societies cannot be expected to charge so little for their produce that their own profit is almost negligible. A vegetable sales society in Cochin, for example, was praised by the Registrar for having acted 'as a great lever in bringing down the prices'. Its profit in 1944–5 was only Rs 452 on purchases and sales totalling nearly Rs 35,000,[293] and in 1945–6 only Rs 232.[294]

Another factor which, in the agriculturist's best interest, ought to be remembered in connexion with the promotion of agricultural marketing is that to which Shri J. C. Kumarappa points in his *Economy of Permanence*. There is doubtless considerable ground for his complaint that, in this under-nourished and impoverished country, milk, eggs and honey needed by the family and especially the children of the cultivator are sold away from the villages.[295] There is a danger that this tendency may be increased under pressure from a co-operative society that all that a farmer produces of these commodities must come to it for sale. Education in food values should parallel the marketing activity, and that is a task for the multipurpose society where separate better-living societies are not discharging it.

Co-operative marketing has proved most strikingly successful in connexion with sugar-cane, in Uttar Pradesh

and Bihar, where very large percentages of the total output are sold through the cane-development societies and unions, and with cotton, in Gujarat and Maharashtra, where cotton sale societies are commonly linked with ginning and pressing societies in the same co-operative union. In both these lines the societies have been able to raise the quality of the crops, by introducing improved strains. Other products which have lent themselves well to co-operative marketing have been *ghee* in Uttar Pradesh, eggs in Punjab, and fruit and vegetables in Gujarat and Maharashtra. In one or another state, co-operatives seem to have been established for almost every product, from salt to areca-nuts.

The ten-year goal set by the Co-operative Planning Committee for co-operative marketing, with the necessary government subsidies, is the handling of 25 per cent of the total annual marketable surplus of agricultural produce, through 2,000 co-operative organizations besides provincial marketing societies and an All-India Marketing Association.[291] A large expansion of co-operative marketing is envisaged under the Third Five-Year Plan, as complementary to the plans for the expansion and reorganization of co-operative credit. The Co-operative Department in the old Central Provinces had a five-year plan that called for a multipurpose society or rural store for every 10 to 20 villages which would collect produce for sale, all affiliated with district regional associations, and for a Provincial Marketing Board to provide market intelligence, etc., and, hopefully, 'to work in co-ordination with the All-India Marketing Board which may be set up in the future'.[296]

Madras, which in 1945–6 had several marketing federations and societies for potato growers, fruit growers, etc.,[290] at the end of 1946–7 had a five-year plan for the co-operative marketing of agricultural produce under consideration by the government. It aimed at the development of co-operative marketing through 200 sale societies, with the necessary godowns built with government grants and loans, and with the services of senior inspectors.[297] In 1961–2, Madras had 126 primary marketing societies. The value of the purchases of agricultural produce and of agricultural requisites

came to Rs 12·62 lakhs and Rs 136·91 lakhs. The value of sales in respect of these two items came to Rs 12·67 lakhs and Rs 192·75 lakhs. The co-operative development plans of all the states generally provide for schemes for the initiation and expansion of co-operative marketing. A detailed reference to this subject will be made in the concluding chapter of this book.

No more than credit, however, is marketing an isolated problem, nor can the co-operative effort alone be expected to solve the many problems even of marketing. The *Report on the Co-operative Marketing of Agricultural Produce in India* recommended Price Control Boards for certain products, to ensure a price level fair to both producer and consumer, and the fixing of the minimum prices of the better-quality produce handled by co-operative societies.[298] It is highly questionable how this would work in the absence of some type of production planning such as that done in the United States by the Agricultural Adjustment Administration, which planned agricultural production as far as possible in co-ordination with the prevailing economic conditions, guiding and assisting farmers, with their voluntary co-operation, in producing what was needed and in the quantities required. As the Agricultural Credit Department of the Reserve Bank once pointed out, the difficult problem of 'effecting some measure of insulation of the national economy against the dislocating consequences of contact with the international economy' has to be faced.[299] Co-operation alone cannot solve it. The *Report of the Foodgrains Enquiry Committee* (1957) has recommended the setting up of a Price Stabilization Board for 'the formulation of the policy for price stabilization in general and determining the programme for enforcing it from time to time'. The Report has also recommended the setting up of a suitable organization to execute such part of the policy and programme framed by the Price Stabilization Board 'as may relate specifically to purchase and sale operations in the field of foodgrains'.

The linking up of producers' and consumers' societies was urged by the Mysore Co-operative Committee in

1936,[300] and the provincial co-operative marketing society in that state was intended as a direct link between them.[301] The *Report on the Co-operative Marketing of Agricultural Produce in India* also favours such a link-up.[302] Producers-cum-consumers' co-operative societies were a prominent development in Madras in 1946–7, and the majority worked at a profit, dealing mostly in foodgrains. At the end of that year there were 274 such societies in that state, with 313,000 members and a paid-up share capital of Rs 166·34 lakhs. Their total purchases and sales were over Rs 10 crores each. The Registrar remarked that they were 'intended to replace as far as possible private merchants and retail traders'.[303] This hope, however, has not been fulfilled and the working of these societies, especially after decontrol, has not been happy. Most of these societies have been reorganized into other types of co-operative societies such as rural banks and marketing societies. The registration of some societies was cancelled.

This combining of functions in a single society is, however, a different proposition from the linking together of separate producers' and consumers' societies. It is doubtful to what extent this can be peaceably and profitably effected. The one group desiring the highest possible price and the other the lowest, conflict of interests is bound to assert itself unless such a scheme of profit-sharing can be worked out as is reported to have been successful on a small scale at Waukegan, Illinois, between milk producers and milk consumers. There the consumers' co-operative society contracted with the supplying farmers, agreeing to pay them the prevailing price for milk and to sell to its members at the market price, any savings at the end of the year to be divided equally between the producers and the consumers. Not only has the scheme profited both groups, but it has forged goodwill between them, as a co-operative enterprise should.[304]

A question may be raised as to the processing activities in connexion with agricultural produce, which in India have been assumed generally to fall in the marketing field. Both the Gadgil and the Saraiya Committees, and

more recently the All-India Rural Credit Survey Committee, recommended the development of such activities for increasing the return to the producer, and the success of cane crushing, cotton ginning, oilseed pressing and other similar processing experiments has proved the value of such efforts. But in some lines the avoidance by sales societies of unnecessary arousing of opposition from middlemen is wise, and one American writer on co-operation has pointed out that a marketing co-operative which undertakes the processing of grain may be boycotted by the other millers who are its potential customers, thus ruining the whole enterprise.[305]

Why should not federations of consumers' societies on a stable basis follow the example of Madras wholesale societies as of the great Co-operative Wholesale Society of Great Britain, and consider the possibility of expansion into the production field in certain lines, thus saving their members not only the middlemen's but also the manufacturers' profits? Many of the 22 district wholesale or central stores in Madras had processing activities in 1946–7 —the conversion of paddy into rice, oilseed pressing, etc.[306] Subsequently, the wholesale stores in the Madras State were converted into supply and marketing societies at the district level for co-ordinating the work of the primary marketing societies in their area, undertaking export trade of agricultural produce and distributing agricultural requirements.

The principle on which consumers' co-operation in the United States has cautiously advanced into production and gone from strength to strength has been that of assurance of demand from co-operative stores sufficient to absorb the entire output of the factory acquired. That assurance could surely be forthcoming from co-operative consumer federations of some size in respect of a number of commodities, of which sugar, wheat flour and milled rice (if its production must be continued at the expense of the more nutritious hand-pounded rice) suggest themselves offhand, with textile mills for standard lines of cloth as a desideratum after the feasibility and profitableness of con-

sumer production in the other lines has been demonstrated.

Such a development, moreover, should give an impetus to integration and co-operation at the consumer federation level, so desirable to the stability of the consumer co-operative effort. The government assistance recommended by the Saraiya Committee in the form of a twenty-year loan to a sale society undertaking the construction of a processing plant could with equal propriety, surely, be rendered to a consumers' co-operative federation for the same purpose. It may be worth questioning, incidentally, whether a society undertaking processing for the first time is acting wisely in constructing its own plant rather than arranging to purchase a going plant on equitable terms. The proposed loan might, it would seem, well be made available alternatively, under any necessary safeguards, for such a purpose.

Consumers' Co-operative Societies

The distributive phase of co-operative activity had, before the Second World War, met with indifferent success in India. Its progress was halting and, while what not to do in this direction had been amply demonstrated, the lessons gleaned from experience before the present decade were more negative than positive. The joint purchase of raw materials is, of course, a primary object of the industrial societies. The purchase and sale societies and unions, as their name implies, act as distributive as well as sales agencies, and have played a conspicuous part in the distribution of controlled articles, for example, during the last war and since.

Besides the large part played by credit societies and banks in the distribution of rationed articles in World War Two and in the post-war years, a number of credit societies and some of other types had earlier undertaken as a subsidiary activity the co-operative purchase of members' agricultural and, in some cases, domestic requirements. Occasional bulk purchases of cloth and fodder for the benefit of neighbouring societies had resulted, years ago, from group conferences among panchayats of village credit societies in Uttar Pradesh.[307]

Urban credit societies in Madras had undertaken the purchase of cloth and foodstuffs for their members,[308] and in the old Bombay State the taluka development associations and some of the people's banks had carried on this work and the cotton sale societies also bought for their members on the indent system, which of course involves the least risk. The branches of the apex bank, as we have seen, had helped in the distribution of seeds, fertilizers and agricultural implements, and by 1930 the separate purchase and sale societies which had been established were taking over this work gradually.[309]

Distributive societies were the first type of non-credit society started in rural areas. They were at first confined largely to supplying members' agricultural requirements, but by the time of the Maclagan Committee's investigation (1915) separate societies had been registered for buying, in addition to farm implements and fertilizers, milk, yarn, and silk, and seemed in most cases to be prospering.[310] This appearance of prosperity was not sustained in many cases and in the early twenties several failures among co-operative stores shook public confidence in the consumer phase of the movement.[311]

The separate agricultural associations which had been formed in Bengal to buy in bulk for members' agricultural requirements[312] did not work very satisfactorily. The Provincial Banking Enquiry Committee inclined to the view that their duties could be discharged equally well and more economically by the credit societies or by the sale and supply societies.[313] The Bombay Registrar in his report for 1929–30 wrote: 'Speaking generally, experience proves that store societies are most difficult to run, and no fresh attempts should, therefore, be made to organize any consumers' stores.'[314] Both the Travancore Committee (1934) and the Mysore Committee (1936) recommended the indent system of purchases for rural stores.[315]

There were a few exceptions, chiefly in Maharashtra, Madras and Mysore, but the record of consumers' co-operation in India is rather discouraging.

When one thinks of consumers' co-operation in the

West, the Rochdale success from small beginnings comes to mind, and the great wholesale co-operative societies of Great Britain. In India, the mention of consumer co-operation as inevitably suggests the Triplicane Urban Co-operative Society Ltd, of Madras, started in 1905 by fourteen enthusiasts for the Rochdale pattern of co-operative effort, most of them schoolmasters. The management has been conservative. Not until 1926 was a clothing department added to the grocery department with which the store started.[316] The Triplicane Society has kept its lead. It made an enviable record in its quiet and efficient handling of the food situation when in April 1942, as a result of the war scare, most of the retail merchants left Madras in a hurry. The Triplicane Stores stepped into the breach. The government assisted with special staff and advances for stock purchase and permitted sale to non-members. In addition to its 35 branches, the society opened 30 depots and served for a time as almost the sole supplier of food to the whole city of Madras.[317] Particulars available for the year 1963 show that the Triplicane Urban Co-operative Society's monthly sales amounted to over Rs 3·5 lakhs, on an average. Sales to non-members formed about 5 per cent of this amount. Today, the Society has a network of 62 branches serving a population of about 2 million in Madras City and Suburbs.

Food rationing during the war gave the consumers' branch of the co-operative movement generally a tremendous fillip. It made a rapid advance in Assam,[318] Bengal and Madras and, indeed, in most parts of the country. In isolated cases, however, like that of Bihar, advantage was not taken of the opportunity for expansion because, the Registrar there reported, the trained staff, busy with the rehabilitation of the central banks, was not available.[319] At the end of 1945 there were only fourteen co-operative stores in the whole state, running generally on their owned capital and deposits. In the neighbouring state of Orissa, with about one-fourth as large a population, there were, in 1945–6, 122 consumers' stores with 15,360 members, a working capital of Rs 4,43,000 and a net profit of

Rs 69,000.[320] In 1961–2, however, there were 273 primary stores in Bihar which sold goods worth Rs 78·20 lakhs. During the same period there were 319 primary stores in Orissa which sold goods to the value of Rs 29·23 lakhs.

The consumers' co-operative societies are not confined to the urban areas, though they have made their most spectacular development there, notably, as mentioned, in Madras. But even in Madras, there were difficulties after decontrol and the Committee on Co-operation in Madras, 1956, was of the view that, generally speaking, there was no future for the rural stores. Seed stores in Uttar Pradesh, however, were numerous and sometimes successful. There are now over 1,000 seed stores under the administration of the Co-operative Department in Uttar Pradesh. These seed stores are run by block development and marketing unions. In Bombay, the Registrar remarked in his report for 1946–7, that the scope for societies for the supply of agricultural requisites is limited, because taluka development associations, multipurpose and other primary societies have been taking up the distribution of seeds and manures, the hiring and supply of agricultural implements, etc.[321] Nevertheless, there were 1,145 primary stores in Maharashtra in 1961–2 which sold goods to the value of Rs 7·80 crores. In the same year, the value of the sales made by the primary stores in Madras numbering 932 came to Rs 11·03 crores.

The All-India Co-operative Planning Committee recommended a consumers' society on the Rochdale model for every town with about 5,000 population, federations of about 50 conveniently situated urban and rural consumers' societies and a provincial consumers' society, all subsidized by the government for half the cost of working for the first five years.[322] But the Committee emphasized that 'ultimately the co-operative consumer movement is to be based everywhere on independent societies functioning in each area', a locally owned society commanding a greater degree of loyalty and more democratic control than a branch of an outside institution. The central societies proposed offer the opportunity for savings from wholesale operations, efficient staff, etc.[323] For village primary societies having a

stores section the Saraiya Committee recommend that it be distinct from the credit section, that it should deal only in commodities in daily demand and after a careful estimate of probable demand based on established needs, or, better still, on indents.[324]

The Committee on Consumers' Co-operatives, appointed by the erstwhile National Co-operative Development and Warehousing Board in 1960, made various recommendations in their report submitted in 1961. The important recommendations related to the standards for economic viability of consumers' stores, the need for an intensive drive for the consolidation and revitalization of the existing units and the pattern of financial assistance from the government in the initial stages.

Because of the opposition of vested interests, Shri A. K. Yegna Narayan Aiyer suggested that rural purchase and sale societies should in their distributive phase take up the supply of improved implements, manures, seeds and spray materials, ordinarily supplied by the Agricultural Department and not stocked by the general merchant.[325] So long as the supply of agricultural requisites is in question, this is sound policy. But when it comes to the stocking of consumer goods, the stimulation of artificial demand in the impoverished rural folk is a danger to be guarded against. To offer additional and unnecessary commodities in the country stores is only to discourage thrift and encourage indebtedness.

There are various specialized types of stores, such as the co-operative pharmacies in Bangalore (Mysore) and in Orissa,[320] and the Indian Medical Practitioners' Co-operative Pharmacy and Stores in Madras, which in 1963 supplied drugs to the value of over Rs 2 lakhs and served about 260 dispensaries in the Madras State.

An interesting development to benefit a humble class of workers in Bombay was the formation of a dhobis' (washermen's) consumers' co-operative for the procurement of the necessities of their trade at reasonable rates. Such co-operatives for washermen have been formed in other states also, under a scheme formulated by the Ministry of

Community Development and Co-operation of the Government of India.

Students' stores having the benefit of faculty supervision are quite numerous and quite generally successful on a modest scale. In Baroda a students' store in 1944–5 made a profit of Rs 5,252.[326] Such societies are recognized as of value in furnishing training to the students who administer them under direction. The Travancore Co-operative Committee declared that every college and high school if not middle school in the state should have its own store.[327] Such stores, if successful, are of course the best sort of propaganda for co-operation. The Committee on Consumers' Co-operatives (1961) suggested that efforts should be made to organize consumers' stores in colleges, high schools etc. and the interest shown by the students in such stores 'should not pass un-noticed'.

The need for federation of primary stores was recognized in connexion with the earlier great expansion, and steps had been taken in many places to meet it. Travancore had in 1945–6 a central wholesale society and one was started in that year in Cochin.[328] Travancore had also 148 purely distributive societies which were expected to survive the emergency period, but the Registrar did not anticipate that the 761 credit societies which had been distributing controlled articles would continue to do so.[329] The Travancore-Cochin Registrar's report for 1955–6 relating to the areas of Cochin and Travancore which formed a new state (subsequently forming Kerala), referred to the hard struggle of the 703 primary stores to overcome the difficulties caused by decontrol over foodgrains.[330] There were 177 primary stores in Kerala in 1961–2. Out of this number, 109 stores incurred losses to the extent of Rs 1·93 lakhs, 63 stores made a profit of Rs 2·78 lakhs and 5 stores worked without profit or loss.

In Mysore, the Provincial Marketing Society functioned as the wholesale society.[331] There are now 6 wholesale stores in Mysore.

In Bombay in 1946–7 there were 515 co-operative stores with total purchases of Rs 592·2 lakhs, total sales of Rs 600·2

lakhs and a profit of Rs 7,66,911. Over one-third of the 3,956 rural distribution centres for rationed commodities in that state on 30 June 1947—1,369—were managed by co-operative societies. The federation of primary societies, however, went until recently very slowly there, in spite of considerable agitation for it. The Provincial Marketing Society (now defunct) functioned as the wholesale distributor of rationed commodities to some of the co-operative societies recognized as authorized retail distributors under the government rationing scheme, but of Bombay's over 7,000 societies of all types, only 291 joined the Provincial Society. Only Ahmedabad and Belgaum Districts had federations of consumer societies when the Bombay City and Suburbs Co-operative Consumers' Conference was held in March 1946. The organization of federations of purchase and sale societies was, however, a line of effort in Bombay in 1946–7, and one such federation had been registered soon after the close of that year.[332] A federation of consumers' societies in Bombay has since been formed. In 1961–2 there were 1,145 primary stores in Maharashtra with a membership of 174,266; out of these, 411 worked at a profit of Rs 10·74 lakhs, 289 worked at a loss of Rs 7·37 lakhs and 445 worked without profit or loss. The Bombay State Consumers' Co-operative Society set up in 1950 to deal in cloth and other consumers' goods suffered a huge loss in 1955–6 owing to decontrol and slump in prices, and in 1958 it was wound up. An All-Bombay Co-operative Consumers' Societies Federation was set up in 1948 to supervise the working of consumers' societies in Bombay City and suburbs. The policy has been to form federations in areas where consumers' societies are sufficiently large in number, to undertake the work of supervision and inspection of affiliated societies. The All-Bombay Federation deals with primary stores in Bombay City and suburbs. In other parts of the state, there are district sale and purchase unions at the district level, with some primary stores affiliated to them. The apex marketing society also supplies controlled commodities such as wheat, rice, sugar and kerosene. Recently some consumers' stores

in Bombay City and its suburbs were functioning as fair-price shops under the government's scheme for the distribution of imported rice and wheat. Owing to the overlapping of functions, the All-Bombay Federation has sought recognition as the sole distributor for controlled commodities.

In Madras, between 1941–2 and 1946–7, the number of district wholesale or central stores increased from 8 to 22,[333] but most of their sales were to private merchants, doubtless largely in connexion with rationed commodities. They were not able to supply in bulk at competitive prices all the goods the primary societies required and the Registrar remarked in his report for the latter year, 'The sooner they address themselves to this task, the better for them and the future'.[334] It is not surprising in these circumstances that the proposal for a central wholesale society was adjudged premature.[335] Madras has 10 wholesale stores called district supply and marketing societies which were formed as a result of the reorganization, in 1955–6, of the district federations of primary stores. These societies also deal with primary marketing societies. At the state level, there is an apex co-operative supply and marketing society with all the district supply and marketing societies as its members. The Registrar in his report for 1955–6 indicated that after decontrol in 1952, the stores societies 'were facing keen competition from private trade and such of the stores as were not able to withstand the competition went into liquidation'. In 1961–2, 593 primary stores worked at a profit of Rs 18·55 lakhs, 260 stores had losses of Rs 15·04 lakhs and 79 stores showed neither profit nor loss.

Departure from the proven Rochdale principle of selling at market rates has been not uncommon and would seem unjustifiable, especially where stores are open to non-members. In any case, selling below the market price, by reducing the rebates to members in terms of volume of purchases, weakens the strongest material incentive to members' loyalty. One occasionally comes across a curious departure from pattern in a Registrar's report, as in the statement that the fair-price and ration shops in Cochin

had given free rations for a day or two to all ration-card holders, 'whether they happened to be members or not', a gesture highly appreciated by the public. Perhaps it was a good investment, irregular as it seems, for the gross profits of those shops rose from Rs 45,455 in 1945–6 to Rs 1,67,874 in 1946–7.[336]

The Uttar Pradesh Registrar remarked in his report for 1944–5, published in 1947, that co-operative stores in that state had not yet adopted the principle of giving a rebate on purchases. Many had, however, done well. Their total volume of business was Rs 178 lakhs. There were 8 central consumers' societies for the 159 primary stores and, though there was no provincial stores federation, the provincial marketing federation had opened its membership to the consumers' stores and was trying to help them. That federation, through its 16 branches and about 200 depots, was itself responsible for nearly half the distribution work. It worked both as wholesaler and retailer of nearly the whole of the state's sugar, cloth, oilcake, salt, vegetable *ghee* and yarn.[337] The Registrar's report for 1953–4 showed that there were 415 primary and 7 central stores in Uttar Pradesh. No progress could be recorded by them. On the other hand, they faced a difficult situation owing to decontrol. The federation too was in some difficulty caused by factors such as decontrol. In Andhra, there were 417 primary stores in 1954–5. The Registrar's report for that year mentioned that these stores found it difficult to adjust themselves to a competitive market and that a policy of liquidating such stores as were unable to face the competition was being followed. The table on following page gives data for 1961–2 relating to primary stores in Uttar Pradesh and Andhra Pradesh and also in Gujarat.

Even with the encouragement which war and post-war conditions gave, however, the success of co-operative stores has been far from uniform. Mr F. B. Wace remarked in 1939 that the traders' narrow margin of profit left little benefit for co-operative societies, which inevitably had working expenses and found great difficulty in securing managers who combined honesty with efficiency. He saw no prospect

(Rs Lakhs)

State	No. of Stores With Profit	Amount	No. of Stores With Loss	Amount	No. of Stores Without Profit or Loss
		Rs		Rs	
Andhra Pradesh	269	6·27	190	1.35	80
Gujarat	226	4·83	191	1·98	87
Uttar Pradesh	104	2·48	49	0·78	327

of much development of these societies in the near future.[338] That was on the very eve of the war and the unpredictable spread of co-operative stores over the country. It remains valid, however, as a long-term pronouncement. Many 'war-baby' co-operative stores have not long survived the discontinuance of government controls. There is also the question of how much effort it is worth putting on their cosseting, if the traders' profit is indeed so narrow. The retail trader may sometimes use false weights to supplement his legitimate gains, but he offers credit and other facilities, such as sometimes calling for his orders, on none of which grounds can the co-operative societies meet his competition. He is also often the village moneylender whom it does not pay to offend until co-operative credit as well as consumer co-operation is firmly entrenched in the locality.

Schulze-Delitzsch called consumer co-operation 'the foundation of the co-operative structure', and it may well be so in countries such as England, where there is a large working class which is fairly well paid. This condition unfortunately is not found in India, where the potential economic advantages of consumer co-operation among the great masses of the people seem proportionately small. It must be remembered that the clientele of the Triplicane Stores is drawn largely from the middle class.

If the commercial service is on the basis of cost plus a reasonable profit and if dishonesty is controlled by private and official vigilance, why should consumers' societies in those lines be necessary? The remedy for the alleged resort of some retail grain and other merchants to sharp trade practices lies in official regulation, not in setting up co-operative societies to compete, in an unprofitable line, with honest methods and perhaps necessarily higher prices. The cost in money and to the reputation of the movement which is involved in starting unnecessary societies only to have them die a lingering death should prompt caution in this phase of co-operative effort where the chances of permanent success seem slight. Certainly the field for the amelioration of conditions through co-operation is sufficiently wide without attempting to compete where no appreciable saving can be hoped for.

Purchases on indent, by credit or multipurpose societies, each member being committed to taking what he has ordered, may after all solve the members' procurement problems for staples, while avoiding risk. It will be well if the consumers' societies which appear to have slight chances of survival are wound up voluntarily while they are solvent.

The failure, with large losses to the philanthropic sponsors, of a large co-operative wholesale and retail establishment in Bombay many years ago, before there were enough retail stores to support it, holds its warning for the future, when the number of primary consumer stores is only too likely to shrink. If so, the superstructure, where wholesale societies are functioning, is bound to become top-heavy. And if competition with retail traders is fundamentally uneconomical, even the advantage of a steady source of supply at reasonable rates cannot save the primary societies or their source of wholesale supply.

The decision in 1948 to bring co-operative consumers' societies prominently into the distribution of rationed cloth under the reimposed government controls, a line in which unregulated profits had been large indeed, offered, from one point of view, a new lease of life to these societies,

while from another it increased the risks of inexperience, and after decontrol several of the societies were left high and dry. Cloth sale societies, however, made a good record in Orissa, where seven worked satisfactorily on a strict cash basis in 1945–6,[320] but they were generally not able to face the subsequent period when controls were abolished. Subsequently, the 10 textile marketing societies incurred heavy losses and steps were taken to reorganize some and liquidate the rest.

It will be seen from the brief account given above that with all the opportunities created by the Second World War, the progress of the consumers' stores movement has not been appreciable or lasting in the post-war period. This may be illustrated by a few figures regarding the comparative position of the consumers' movement in 1951–2 and 1961–2. In 1951–2 there were 9,579 primary stores with a membership of 1,839,000. The value of purchases and sales of these societies amounted to Rs 79·60 crores and Rs 83·75 crores respectively. The profit made by the societies amounted to Rs 83·49 lakhs, the loss being Rs 38·93 lakhs. As against this, in 1961–2, there were 7,266 primary stores with a membership of 1,395,334. They could show transactions to the value of only Rs 33·59 crores of purchases and Rs 35·40 crores of sales, the figures for profit and loss being Rs 69·99 lakhs and Rs 38·71 lakhs. A similar deterioration in the position of the wholesale stores is also noticeable. There were 95 wholesale societies in 1951–2 as compared with 32 in 1961–2. The value of their purchases and sales had shrunk from about Rs 27 crores and Rs 28 crores in 1951–2 to about Rs 2·03 crores and Rs 2·16 crores in 1961–2, even though the decline in 1961–2 is to some extent a reflection of the re-classification of the wholesale stores in the statistical statements.

A brief reference may also be made to some factors emerging from the recent history of consumers' co-operation in India. First, some stores followed the undesirable practice of selling cheap rather than at full market price and distributing the surplus to their members in proportion to their purchases. Second, some consumers' stores indulged in credit

sales and they generally suffered in the process. Third, the link between primary stores and their wholesale societies has been very feeble even in states which do have wholesales. Fourth, in the distribution of foodgrains in the days of controls it sometimes happened that only a small number of holders of ration cards was registered with a store, as compared with private merchants in the locality who had a larger number of card-holders registered with them. This worked to the detriment of the co-operative store. Fifth, loyalty of consumers to their stores has not been very much in evidence. These points deserve special attention in the context of a country-wide scheme launched by the Government of India in 1962–3 which envisaged the setting up of 200 wholesale or central stores with about 4,000 primary stores or branches, in cities and towns with a population exceeding 50,000, to ensure equitable distribution of consumers' goods at fair prices. The entire financial assistance for the scheme will be provided by the Government of India through the National Co-operative Development Corporation, outside the Plan ceilings in the states. According to this pattern of financial assistance, a wholesale store is eligible for assistance up to a maximum of Rs 4·1 lakhs for share capital, clean cash credit accommodation, purchase of trucks and equipment, construction of godowns and managerial expenses. The primary stores or branches of the wholesale stores will get financial assistance up to Rs 4,500 each for share capital and managerial expenses. During 1962–3, 73 wholesale stores and 848 primary stores or branches had been set up. During the same year, the financial assistance provided by the Government of India in connexion with this scheme came to Rs 1·48 crores. Unless care is taken, this scheme may result in the formation of a large number of stores which may later turn out to be weak or moribund. Stores should be formed only in places where the business, both present and potential, will give adequate income to the stores. It also goes without saying that without capable managers and efficient arrangements for checking of stocks and auditing, the scheme cannot be a success.

Industrial Societies

No one questions the need of the Indian craftsman for help under the conditions brought about in the traditional handicraft industries by the increasingly keen factory competition. The majority of workers in these industries live in miserable conditions, whether in city or in village, illiterate and often heavily indebted. The Maclagan Committee pointed out in 1915 the poverty of the largest industrial group, the weavers, and said that 'any method by which the cottage industries of the country can be preserved would deserve a prolonged trial'.[339]

Handloom weaving today is the major cottage industry in practically every state in India, supporting nearly 10 million people either as earners or as dependents on earners.[340] While to some extent a subsidiary industry, weaving is the chief means of livelihood of most weavers. It is more an urban than a rural profession.

After registration under the Act was thrown open to artisans' societies for purposes other than credit the first twenty years were largely barren of serious or far-reaching results. Numerous reasons have been assigned for this, ranging from the artisans' ignorance and poverty to seasonal demand for some products and inadequate financial support of the co-operative undertakings, but the real reason lies deeper. In effect, this phase of the co-operative movement had been expected to stem, without preferential legislation, the rising tide of economic advance and had invited on itself the embarrassment of King Canute. The industrial revolution was slow in reaching the East, but its progress, if somewhat more gradual than in the West, will doubtless, if the enthusiasm in high circles for the industrialization of India has a free rein, prove as irresistible. Handloom products represented only about 31 per cent of the total production of cotton cloth according to the Co-operative Planning Committee (1946). In Uttar Pradesh, for example, the share of handlooms in total cloth production fell from 60 per cent in 1901 to 29 per cent in 1939.[341] Taking recent figures, we find that out of a total output of about 6,800 million yards of cloth, the contribution of handlooms

was about 1,500 million yards, or rather more than 20 per cent, for the whole country. Out of the total production target of 9,300 million yards of cloth set for the last year of the Third Five-Year Plan, i.e. 1965–6, the share of handloom, powerloom and khadi industries is 3,500 million yards as compared with their output of about 2,350 million yards in 1960–61.

The small craftsman, engaged in the production of goods for which a generally acceptable machine substitute is available, must sooner or later succumb to the pressure of factory competition unless he produces for local consumption as under the old village set-up, as advocated by Gandhiji and those of his followers who oppose large-scale industrialization. There will always, of course, be a certain demand for hand-made fabrics and *objets d'art*, and more than enough craftsmen to meet it will survive, no doubt. But in the absence of far-seeing supplementary legislation, co-operation can at best mitigate the rigours of the situation until the rest of the independent producers bow to the inevitable and join the ranks of factory labour or turn, as so many have done already, to the overcrowded land. Shri J. C. Kumarappa reported skilled weavers found breaking stones for road-making for a meagre livelihood.[342] Radical and permanent stabilization of the small industries and amelioration of the condition of their working as a class depends in no small part upon the active support of the government to the weaker party in the unequal contest. Regulation of competition between large-scale and cottage industries, acutely necessary for the handloom weavers, is required also for other industries, e.g. that of the tanners and leather workers, etc. The handloom weavers, for example, could be given a monopoly of the production of certain lines of cloth, priority in the allocation of yarn, etc.

The Bombay Economic and Industrial Survey Committee (1940), of which Shri Purshottamdas Thakurdas was the chairman, urged upon the government the obligation actively to support and encourage these industries and to organize them upon co-operative lines.[343]

Fortunately, the need of safeguards where necessary

against intensive competition was recognized by the central government of the Indian Dominion in the formulation of its industrial policy, presented to the Dominion Parliament on 6 April 1948. It was announced on that occasion that the Industries Conference's recommendation for the establishment of a Cottage Industries Board had been accepted and that a directorate for fostering small-scale industries would be set up within the Directorate-General of Industries and Supplies, with the favouring of co-operation as a main objective.

Many of these objectives have been attained. There is a separate Small-Scale Industries Board of the Government of India which had its first meeting in January 1955. The Chairman of the Board is the Minister for Industries, Ministry of Commerce and Industry, of the Government of India. The other members consist of officials of the government, both central and state, and of the Reserve Bank and representatives of the industrial sector. The measures taken by the Board for the development of small-scale industries relate broadly to improvement in techniques of production, business management and marketing; provision of credit on easy terms and organization of small units, wherever possible, on a co-operative basis.[344] For giving concentrated attention to the handloom industry, there is an All-India Handloom Board from which loans and subsidies are available for providing various types of facilities. The Board has given a good deal of attention to matters such as effecting technical improvements in the handloom industry, including research in designs; marketing, both internal and external; and bringing as many handloom weavers as possible into the co-operative fold and, in this context, provision of aids such as loans to weavers, subscriptions to the share capital of weavers' co-operatives and provision of working capital. Certain lines of production such as *dhotis* of particular width and borders, *lungis*, *saris*, etc. are reserved for the handloom sector. To encourage sales of handloom cloth, there is a rebate, which amounted to 5 paise per rupee on retail sales of cloth worth Rs 2 or more in May 1963. Since 1953, handloom development schemes

have been financed from a Cess Fund built up out of a levy on mill cloth. Loans for working capital, generally since 1 April 1957, are being provided by the Reserve Bank of India to weavers' co-operatives through the state co-operative banks. It may be noted that up to the end of August 1957, a sum of Rs 18·66 crores was sanctioned by the Government of India from the Cess Fund for handloom development schemes. The number of looms in the co-operative sector rose from about 6·82 lakhs in October 1953 to 10·27 lakhs in March 1956. By 30 September 1962, the number of looms with co-operative societies had increased to 13·52 lakhs out of 28·49 lakh looms on the register of the Textile Commissioner.

The co-operative societies have a great part to play in helping the village artisan by giving him the necessary raw materials, collecting his finished articles, advancing him some percentage of their value outright pending the sale of the goods in the open market on advantageous terms, and insisting on and guiding him in respect of latest designs, colour, finish, pattern, etc. The co-operative movement must enlist the services of experts conversant with market trends, trade channels, prospective markets and the changing tastes of consumers.

The weavers' group is highly sensitive to general economic ups and downs. It was one of the groups hardest hit by the depression.[345] The weavers' income was somewhat improved through the war-time scarcity of foreign cloth,[346] but this relief was temporary. In 1952 the handloom industry faced a serious crisis owing to factors such as slump in cloth prices and fall in foreign demand. The government had to come to the rescue of the industry. Such critical situations have occurred even in subsequent years.

Efforts to ameliorate the weavers' condition through co-operative effort have often been discouraging. A loss of Rs 80,000 was involved in the failure of one weavers' society in Bihar and Orissa.[347] Reading between the lines of earlier reports of Registrars, one suspects a readiness on the part of some to wash their hands of the weavers as an almost hopeless lot.

The incompetence of small men to manage large enterprises has apparently in some cases been to blame for failure. The Cawnpore Knitting and Weaving Society, for example, seems to have been several sizes too big for efficient handling by those responsible. It had taken large loans. Its board of management was superseded from January 1944 to February 1945, while the tangle into which it had got its affairs was straightened out by the Uttar Pradesh Co-operative Department. The reinstated committee, however, proved still unable to manage the society's affairs and it suffered heavy losses.[348]

Irresponsibility, addiction to drink and improvidence have been charged against the illiterate and poverty-stricken group of weavers, augmenting the difficulties caused by their economic situation, the occasional acute shortage of yarn, and the dependence of most of them upon their rivals, the mills[341] or the master weavers. The latter often supply the raw materials at high prices, pay too little for the finished products and desert their weavers when demand is slack. Quite understandably, the master weavers are reported not friendly to the co-operative societies.[346]

In a number of states central organizations have made an important contribution to such success as has attended the industrial societies' working. The apex weavers' society in Madhya Pradesh supplies yarn to its members and arranges for the marketing of their cloth. It also supplies designs and weaving equipment. The Central Handloom Weavers' Society in Travancore had special departments for dyeing, screen printing, etc.[349] Kerala has three central societies functioning in the three regions of the state. In Uttar Pradesh, the Provincial Co-operative Industrial Federation had affiliated to it in 1944–5 twelve central textile purchase and sale societies and 107 primary textile societies.[350] Uttar Pradesh has now an apex Industrial Co-operative Association which has both weavers' and other industrial societies as its members. It procures and supplies raw material, especially cotton and silk yarn, to its primaries and arranges for marketing of their products. The Provincial (State) Industrial Co-operative Association

in Bombay, which started functioning in December 1946, *handled a large volume of business but ran at a* loss of several thousand rupees *in both that year and the next.* In 1947–8 the Association handled yarn distribution, prepared schemes for the development of industrial societies of different types, organized a number of societies through honorary organizers, supplied societies with raw materials and, in some cases, credit, and sold their finished goods, gave technical advice and help in maintaining accounts, and trained secretaries and organizers in collaboration with the Provincial Institute. Its ambitious programme of work for 1948–9 called for the raising of a capital of Rs 25 lakhs. In 1954-5 the Association, with a working capital of Rs 13·20 lakhs, continued to assist its affiliated societies and artisans engaged in various cottage and village industries. It also engaged in production wherever necessary and performed the functions of district industrial co-operative associations through its seven branch committees in areas where the district associations were not existing. During the year, the Association sustained a heavy loss owing to factors such as heavy overdues in the leather sales depot conducted by it, losses sustained by the Cottage and Small-scale Industries Sales Depot and removal of control over yarn. In 1961–2, however, this apex society in Maharashtra worked at a profit of about Rs 5 lakhs.

A Provincial Industrial Co-operative Association was formed in Delhi some years ago.[351] In 1961–2, the apex weavers' society in Delhi showed no profit or loss. An apex weavers' society was registered in February 1956 in Punjab. Andhra Pradesh has 3 state handloom weavers' co-operative societies. Andhra Pradesh had also 4 co-operative spinning mills in 1961–2. There were 4 co-operative spinning mills in Madras, 4 in Maharashtra and 5 in Mysore in 1961–2.

The Madras Handloom Weavers' Provincial (State) Co-operative Society gets some of the weavers' mill requirements reasonably as well as marketing their products.[352] In that state, which leads in handloom weaving, about 18 per cent of the handlooms had been brought into the

movement by the end of 1946–7, thanks to the government's effort to get the entire handloom industry co-operatively organized to check black marketing. An extra yarn quota of 20 per cent was offered to the weavers until 120,000 should have been brought into the societies, but the Registrar felt that it might not be possible to achieve the goal without the indirect compulsion of denial of yarn to non-members. The Madras provincial organization had by 1942–3 built up a price fluctuation fund of Rs 2,30,000, in addition to a reserve of over a lakh of rupees. The Reserve Bank once suggested that other states, especially Bengal where the number of weavers' societies was very large, should copy the example of Madras.[353] About 50 per cent of the looms in the state have been brought within the co-operative fold. In 1961–2, the value of goods produced and sold by the apex weaver's society in Madras came to Rs 80·57 lakhs and Rs 305·29 lakhs respectively.

In Bengal, in 1944–5, both weavers' and fishermen's societies increased considerably under the Revenue Department's scheme for the rehabilitation of artisans. Bengal had more industrial societies in 1944–5 than any other state, 1,138 of the country's 2,905, just under the total for Madras, Uttar Pradesh and Bombay, which ranked next, taken together. There, as in Uttar Pradesh,[354] weavers benefited greatly from the war orders for textiles, not only financially, but also in training to manufacture to specifications.[355] Getting co-operative society members to produce punctually and up to sample has, however, been found very difficult, and, in Punjab at least, many of the textiles ordered from the societies by the government during the war had to be rejected.[356] There was a fall in the number of primary weavers' societies in West Bengal in 1953–4. These societies were affiliated to regional industrial unions which could not give effective help to them. In 1961–2 West Bengal had 1,012 primary weavers' societies of which 314 societies worked at a profit of Rs 10·03 lakhs, 317 worked at a loss of Rs 3·99 lakhs and 381 societies worked without profit or loss.

The West Bengal Provincial Co-operative Industrial and

Procurement Society, governed by a Board of Directors elected by its more than 75 constituent societies, had operated on a very large scale. At the instance of the Provincial Co-operative Bank, which had itself lent the society 10 lakhs of rupees, the Co-operative Department made three of its officers available to the society as General Manager, Sales Manager and Stores Manager. The society was put into liquidation in 1953. After decontrol of cloth and yarn in 1949, huge stocks of cloth and yarn accumulated with the society and had to be disposed of at a very reduced price. This partly accounted for its failure.

In the Central Provinces and Berar (now forming part of Madhya Pradesh) the demand for the registration of weavers' societies in 1944–5 outran the opportunity to enrol them at the time, due to yarn shortage.[357] In the following year, the Provincial Weavers' Society there did a business of Rs 10 lakhs a month in yarn and had a manufacturing section which yielded a monthly business of Rs 32,000 in handloom cloth.[358] The business of the weavers' societies was adversely affected by the slump in cloth prices in 1952. The value of sales of the primary societies declined from Rs 141·04 lakhs in 1951–2 to Rs 53·89 lakhs in 1953–4. Out of the 368 primary weavers' societies in Madhya Pradesh existing on paper in 1961–2, as many as 157 societies were defunct.

It remains to be seen how the industrial societies will fare when the measures against inflation take effect and prices fall. Orissa's forty weavers' societies in 1945–6, the very year the war ended, were 'more or less moribund' and had declined both in membership and working capital. They were reported as being replaced gradually by production and sale societies and societies for the joint purchase of yarn.[359] The Registrar's report for 1955–6 mentioned that most of the yarn distribution societies were in a moribund condition and some of the old production and sale societies showed no perceptible activity. However, a somewhat optimistic picture was shown in the Orissa Registrar's report for 1960–61.

Reluctantly, a verdict of 'not proven' must be brought

in for co-operation being the best method from the outset of tackling the weavers' problem, at least co-operation as generally understood and as far as present immediate and tangible benefits go. Perhaps a period of tutelage such as that provided by the *bani* system developed in Bengal years ago should precede organization on full co-operative lines, a central agency under the Co-operative Department supplying yarn to its constituent societies and paying their members *bani* or wages for the manufacture of goods to its specifications.[360] The possibilities of this system as an interim phase for societies for other full-time workers of different types might appropriately be explored.

In spite of efforts by both the central and the provincial governments, the Saraiya (All-India Co-operative Planning) Committee felt in 1946 that the contribution of co-operation to the solution of even the weavers' problems had been meagre, though some benefits had been conferred by it upon the weavers, notably in the states of Andhra Pradesh, Maharashtra and Madras.[361] That its potential benefits are not to be despised may be gathered from the estimate made by the Punjab Registrar a number of years ago, that the purchase of raw materials at the lowest rate alone saved the societies of handloom weavers in that state from 15 to 20 per cent on middlemen's charges.

A depressing picture was, however, drawn by the Punjab Registrar later in a comparative classification of industrial societies in 1939–40 and 1943–4. The number of societies (with an average membership of fifteen) had increased from 341 to 379 but, while there were seven more B societies, there were fifty-six more D ones, and six more under liquidation in the later year.[362] In 1961–2, there were 882 primary weavers' societies in Punjab. A little more than half of these societies were able to show a small profit of Rs 0·76 lakh in all.

An important part of the credit for what has been achieved must go to the Government of India's generous subvention for the development of the handloom industry, available to the states since early in the thirties. This assistance has become very substantial since 1952. As already

mentioned, the All-India Handloom Board is in charge of schemes for the development of the handloom industry. Money sanctioned from the Cess Fund is utilized almost exclusively for the benefit of weavers within the co-operative fold. An All-India Handloom Fabrics Marketing Co-operative Society was registered in March 1955 for promoting inter-state sales and export of handloom cloth. With effect from 1 April 1957 credit facilities for working capital to weavers' co-operative societies were made available from the Reserve Bank of India, instead of from the Cess Fund, through the state co-operative banks, at the concessional rate of 1½ per cent below the Bank Rate, i.e., at present, at 4½ per cent. Under the scheme, in respect of individual losses arising out of non-recovery of loans, the Government of India would bear 50 per cent of the loss, the share of the state governments and co-operative banks being 40 per cent and 10 per cent. There will be a ceiling of 5 per cent of the total funds disbursed to the handloom industry by co-operative banks, so far as the central government's share of the loss is concerned.

Much of the work done by co-operative effort for the benefit of industrial workers has been through credit societies, already discussed. A tendency has sometimes been observed for artisans' societies proper to make the supply of credit their principal function. To guard against this the policy has here and there been adopted of restricting the loans of industrial societies to purposes connected with the industry, as was the case in Mysore in the twenties[363] and in Punjab during the depression.[364] In Uttar Pradesh, in the initial years industrial societies other than for textile workers were mostly credit societies pure and simple, e.g. those for leather workers, lac workers, potters, etc.[365]

Loans outstanding against industrial societies have been a serious problem. The effect of the factitious prosperity resulting from war conditions is doubtless reflected in the report that in Punjab the debts of the industrial societies had declined from Rs 7,11,541 in 1942–3 to Rs 1,98,500 in 1945–6,[366] though, in 1961–2, the total borrowings of the 882 primary weavers' societies stood at Rs 27·62 lakhs.

Few artisans, as Mr F. B. Wace explains, have tangible security and unless arrangements are made for the prompt manufacture and sale of products, it is difficult to ensure the recovery of advances.[367] The policy in Punjab in the thirties was to confine advances as far as possible to raw materials, and monthly recoveries were attempted.[364]

Finance is, however, a less difficult problem for the industrial societies now that the policy has been accepted by central and urban banks of lending on the pledge of finished products, but Punjab has had a central industrial bank and several unions financing the industrial societies there.[368] The Saraiya Committee suggested an apex provincial industrial co-operative bank where there were no provincial and central banks with sufficient resources. This should not be necessary, at least for short-term credit, in view of the fact that the Reserve Bank of India Act was amended in 1953 enabling the Bank to finance the production or marketing activities of cottage and small-scale industries approved by the Bank, for periods up to 12 months. The handloom industry has so far been approved by the Bank as one eligible for finance under this provision. In any case, separate apex banks for industrial societies will be an unnecessary and wasteful duplication, cutting across the normal co-operative credit structure with the state co-operative bank at the apex. The Second Working Group on Industrial Co-operatives (1963) has suggested that state co-operative banks and central co-operative banks should have separate wings for dealing with industrial finance, assisted by special committees.

The Punjab Registrar declared in his quinquennial report published in 1947 that the industrial societies had lost a golden opportunity in the war years to consolidate their position. He felt that it was, if anything, worse at the end of 1943–4 than it had been at the beginning of 1938–9. Lack of experience and ignorance, not only of business methods but also of the fundamental principles of co-operation (the blame for which can scarcely be laid at the members' door) were assigned as important causes. 'The direction and supervision of this side of the co-operative

movement was also of a very poor order. There was mismanagement, inefficiency and, in a number of cases, dishonesty.'[369] Some societies had been found to be mere paper societies, consisting of an employer and his employees. That the field staff had not reported this fact, it was suggested, pointed to their own ignorance of what co-operation really meant.[369] The blind have been leading the blind to a deplorable extent in the Indian co-operative movement, the blame for which rests squarely on the failure to get expert guidance where necessary and to educate the lower-paid staff properly in co-operative principles. The right type of worker has not always been forthcoming. Workers with a rural outlook and sympathies are out of place in industrial societies of the urban type, where workers with an urban outlook and the necessary business acumen are essential.

The training aspect generally has not been sufficiently to the fore, though efforts in that direction have, of course, been made, as in Punjab, where in 1945–6 the dyeing demonstration party of the Industries Department gave a course for weavers, and industrial classes were held in domestic science, cottage industries, knitting, soap-making, etc.[371] Training of employees of apex and primary weavers' societies is engaging the attention of the All-India Handloom Board. The Government of India has agreed to provide financial aid for this purpose, to the extent of a monthly stipend of not more than Rs 45 per trainee.

In Madras, even in 1945–6 when industrial co-operatives were not so widespread as now, the Provincial (now State) Co-operative Bank granted a subsidy for the development of cottage industries, out of which instructors were appointed to train workers in the manufacture of leather goods, baskets, coir products, etc.[372]

Training is an aspect of the co-operative effort in which the closest working together of the Co-operative and Industrial Departments is of the first importance, not only for training but also for supervision, though divided authority is hardly in the interest of harmonious and efficient efforts. The responsibility should rest on the Co-operative Depart-

ment primarily, but, as recommended years ago by the Bengal Banking Enquiry Committee, the inspection staff for industrial societies may well be composed of men trained in the Department of Industries.[373] The Second Working Group on Industrial Co-operatives (1963) has suggested that members and directors of industrial co-operatives should receive special training.

The Madras Co-operative Department has special inspectors for the primary weavers' societies and others of special types, and these are charged no supervisory fees. Audit also is free for weavers' societies for their first six years, and for other non-credit societies for their first three. The audit fee is waived also for other small societies with a gross income of less than Rs 5,000 a year.

A brief reference may be made to the overall position of industrial co-operative societies in 1961–2. For handloom weavers, there were 19 apex societies, 120 central societies and 12,222 primary societies. The value of cloth produced by the apex societies (including cloth procured from the primaries) amounted to Rs 5·55 crores, while sales came to Rs 8·94 crores. The value of cloth produced by the central societies came to Rs 0·97 crore. The sales totalled Rs 1·39 crores. The primary weavers' societies produced cloth worth Rs 39·27 crores and sold cloth worth Rs 42·52 crores. They had 1,799 sales depots, 86 pattern-making factories and 645 dye-houses. The primary societies had 12·46 lakh looms under them of which 7·26 lakh were active. As regards other industrial societies, there were 22 state, 102 central and 22,340 primary societies on 30 June 1962. The value of their production, at the three levels, came to Rs 0·71 crore, Rs 1·93 crores and Rs 13·75 crores in 1961–2. The value of sales amounted to Rs 0·89 crore, Rs 3·56 crores and Rs 15·11 crores.

The Government of India has emphasized recently that the success of the schemes for the development of the handloom industry on a co-operative basis would depend to a great extent on adequate supervision and audit of co-operative societies. The scale recommended is one auditor for every 45 primary weavers' societies (the aim being to

have one annual audit and an interim audit), one junior supervisor for every 10 primary weavers' societies and one senior supervisor for every 3 junior supervisors. If the expenditure on the additional staff required to adhere to these standards cannot be met from the 4 per cent grant for organizational expenses given by the Government of India to the state governments, the Government of India would meet 50 per cent of such expenditure over and above the 4 per cent ceiling.

The same difficulties on the management side as in the weavers' societies have been encountered in those for other artisans. It is unquestionably hard for workers living so near the margin of subsistence and with so few ordinary comforts, to say nothing of luxuries, to take the long view and forgo present profits in the interest of an abstract reserve fund. A silver workers' society in Bombay illustrates the danger. During a boom period several thousand rupees had been accumulated as share capital. In a succeeding period of depression, the workers continued to vote themselves liberal wages which conditions in the trade no longer justified. Their capital was all paid away as wages and finally the society had to be dissolved.[374]

Sales depots are important for the disposal of the industrial societies' products. The Cottage Industries showroom in Bombay is very large and has a varied and attractive display. The Handloom House in Bombay is a modern showroom where handloom products from different parts of the country are displayed and sold. Special efforts have been made, as in Punjab, to exhibit such products at sales and fairs.[375] A combination sales and tea-room was opened by the Assam Co-operative Industries Association in October 1948.

The other small-scale industries besides weaving which are generally unsuitable as subsidiary occupations for the agriculturist, because carried on chiefly in workshops or for other reasons, include the production of agricultural implements and other tools and metal objects of domestic use, brass and bell-metal work, pottery and glass making, and tanning, restricted under the present artificial standards

to a group enjoying slight social prestige. *Chappals* (sandals) worth Rs 1,000 were manufactured and sold in 1945–6 by one depressed class society in Mysore.[376] There are also printing societies in Maharashtra, Madras, Orissa and elsewhere, which have been doing quite well.

The Sahakari Prakashan Ltd, of Bombay, an enterprising co-operative society with some distinguished members on its advisory board, did printing, publishing and bookselling, issuing a monthly bulletin of its Books Section—*Booco-op*. In contrast with the Radhanath Co-operative Press at Cuttack, its press workers were, however, not members but employees. The Sahakari Prakashan is not, however, functioning at present. A printers' co-operative society was formed in Bombay city in 1961–2. The Orissa Registrar reported that during the prolonged strike of press workers at Cuttack for higher wages, the co-operative press, whose workers were themselves the proprietors, was the only one that continued to work. It had earned a profit of Rs 1,652 in 1945–6.[377] There were five co-operative printing-presses in Orissa in 1960–61 with a paid-up share capital of Rs 1·08 lakhs. Kerala has a Sahithya Pravarthaka Co-operative Society which in 1963 had a membership of 380, most of whom were authors. It sold books for Rs 7·6 lakhs in 1961–2. The society has a printing press and a bookstall. Since its inception in 1945, the society has been able to pay a dividend of 7½ per cent.

It seems of dubious wisdom to try to introduce machinery on a large scale in connexion with most of these industries. The Saraiya Committee, along with many excellent proposals for their strengthening and their rehabilitation, proposed the introduction of electric motors and equipment.[378] Apart from the fact that power looms had been found uneconomical, at least in Uttar Pradesh,[341] the same consideration applies here as to the mechanization of agriculture. Increased output per man spells inevitably reduced employment and, from the standpoint of national well-being, work for all is no less important than increased output. Unemployment and under-employment are primary problems in India. Any lasting solution would have to provide

work for all so that idleness would be eliminated and the demoralizing influence of doles and unemployment benefits avoided. Cottage industries not only give full play to the creative instinct and ensure equitable distribution; they foster the sense of responsibility better than work in large factories, and in co-operative organizations members of cottage industries' societies learn valuable lessons in citizenship and business methods. The Village and Small-Scale Industries Committee (1955) has observed that in the sphere of traditional industry, production through modern techniques 'makes redundant the capital and labour employed in traditional industry and creates a very large problem of unemployment of resources, especially labour resources'.[379]

The sage advice of the Maclagan Committee unfortunately has not in general been followed, i.e. that

> attempts to reorganize village industries on a more profitable basis should not be undertaken sporadically or fortuitously. To avoid mistakes which may well plunge small craftsmen into still deeper difficulties than now, it is very necessary that a systematic inquiry should be made...into the economic conditions of any industry that may be taken up.[339]

Surveys of specific industries to determine which are the most promising for co-operative assistance form part of the Saraiya Committee's plan in connexion with the Regional Promotional Agencies which it recommends,[380] recognizing, however, that even small-scale or cottage industries not economically promising may have to be helped as long as their workers have not found alternative employment. Standard schemes had been prepared for several industries by the Provincial (State) Industrial Co-operative Association in Bombay, which, however, was concentrating its efforts at first on the organization of societies for tanners and leather workers, for workers in wood, iron and other metals, and for women workers.

A good deal of attention has been devoted in recent years to the survey of small-scale industries to assess their prospects. This work is attended to under the investigation programme of the Small-Scale Industries Board which has various teams, consisting of economic and

technical officers, to cover various regions. The Development Commissioner for Small-scale Industries under the Ministry of Commerce and Industry of the Government of India implements a scheme of industrial extension service through a nucleus organization of administrative and technical officers which scrutinizes schemes of state governments and prepares model schemes for various types of industries which are supplied to state governments and others. The detailed technical assistance programme is handled by sixteen small industries service institutes, five branch institutes and sixty-one extension centres. These offer technical and training facilities to small industrial units. It has been reported that in the states also, the Departments of Industries are now much better equipped. A special attempt has been made to set up demonstration and training workshops in select Community Project Areas. Besides, there is a National Small Industries Corporation which concentrates on the commercial aspects of the programme such as hire-purchase of machinery and marketing.

In addition to the technical assistance programme referred to above, the state governments have launched a number of technical assistance schemes with financial assistance from the Government of India. Under such 'service schemes', the Government of India contributes 50 per cent of the cost of land as a grant, 75 per cent of the cost of building and equipment and 50 per cent of recurring expenditure, again as a grant, and the whole of the working capital as a loan. As part of the programme for the organization of small industries on a decentralized basis, industrial estates had been sanctioned by the Government of India in about 54 centres by the end of March 1958. Of these, 12 had started functioning. The construction of the factory, acquiring land for the purpose, supply of electricity, communications, etc., are arranged for by the government. The factory buildings are let out on rent, or given on hire-purchase terms, or sold out straightaway, as the occupant desires. Loans for capital expenditure on machinery and equipment and also for working capital are given on easy

terms. The management of the estates vests with the state government. The entire cost of the estates is met by the Government of India as a long-term loan to the state governments.[381] About 60 industrial estates were set up under the Second Five-Year Plan. It is proposed to establish about 300 new industrial estates, located as far as possible near small and medium-sized towns, under the Third Five-Year Plan.

The first Industrial and Village Industries Conference to be held in Bombay and perhaps anywhere in India was held at Poona late in 1946. A number of primary and subsidiary occupations were selected by that Conference for development. Bombay has a Director of Small Industries and Additional Registrar for Industrial Co-operatives who administers various schemes for the development and financing of cottage and village industries. On the financing side, some of the schemes relate to the granting of loans and subsidies to the educated unemployed, *bona fide* craftsmen and artisans belonging to the backward classes, for the purchase of tools and equipment and for working capital. Further, under the revised State Aid to Industries Rules, the Director of Small Industries and Additional Registrar for Industrial Co-operatives is authorized to sanction loans up to Rs 5,000 in each case for the development of cottage industries for purposes such as construction of buildings, purchase and erection of machinery and plant, purchase of raw material, and meeting the requirements for working capital. The aggregate amount of loans that can be sanctioned during a financial year cannot exceed Rs 1 lakh. Loans can be sanctioned to the extent of 75 per cent of the security offered. The Director also recommends credits to the central financing agencies on a government guarantee ranging from 20 to 30 per cent.

The Co-operative Departments are faced with a dilemma in connexion with the fostering of the secondary occupations which are admittedly so essential if the great agricultural population is to do more than eke out a bare subsistence, unless these are confined to such strictly non-industrial lines as goat, sheep, and cattle breeding, dairying, poultry farm-

ing, apiculture, fishing, and work for other cultivators. Fostering weaving as a subsidiary occupation for agriculturists, for instance, as the Bihar and Orissa Banking Enquiry Committee pointed out, must mean further competition for the professional weavers, 'who are in no such sound an economic state as to bear additional competition over and above the subsidized competition of the mills'.[382]

Dewan Bahadur H. L. Kaji in his lecture at the International Co-operative School, Prague, in September 1948, held that the best subsidiary occupations for the farmer were those normally arising out of his calling. Paddy must be husked and rice hand-pounded; wheat must be converted into flour, raw cotton must be ginned and pressed into bales, groundnuts must be shelled and crushed for oil and oil-cake.[383] The hand-pounding of rice alone, if the government would only make the move of effectively banning rice-mills in the interest of better health and nutrition, would furnish suitable subsidiary employment for an army of agriculturists and their families. Cattle, sheep and goat breeding, dairying, including *ghee* production, poultry-raising, bee-keeping, the processing and preserving of fruits and vegetables, are all supplementary industries that fit harmoniously into the farm pattern and have the added advantage of avoiding competition with the already hard-pressed full-time industrial worker. Dewan Bahadur Kaji believed that only alternatively should small subsidiary industries unrelated to the farm pattern be taken in hand, spinning primarily but also basket-making or rope-making. The making of brooms, matches, soap, toys and paper offered still other possibilities.

Dairying and breeding societies will be considered with the better-farming group, but pisciculture may be taken up here as the Provincial (State) Co-operative Industrial Association in Bombay considered fishermen's societies as coming within its purview, though little had yet been done there in this large field. Madras and Bengal had fishery societies, and Uttar Pradesh had years ago introduced a scheme for supplying fresh fish to a few large towns, on the basis of the experience with which it was proposed to organize

fishermen's societies.[384] In general, however, co-operative progress in this important food line had been halting.

The Fish Sub-committee of the Agricultural Policy Committee, appointed in 1944, concluded that no real advance was possible unless the government accepted the responsibility for placing the backward and largely neglected fishing industry as a whole on a firm foundation and for giving it both direct and indirect assistance, as most Western countries and Japan had done. This recommendation the Saraiya Committee underwrote, recommending that state aid be given largely through co-operative societies, the state providing cold-storage and transport facilities and giving loans at a low rate or subsidies for improved types of craft and gear, which the fishermen, both inland and marine, were obviously too poor to finance.[384] The stocking of nets and boats for fishermen's hire has also been recommended as a useful co-operative activity.[385]

Summing up the experience with fishermen's societies up to 1934, the Travancore Co-operative Enquiry Committee mentioned that in Bihar as 'hopelessly disappointing' and that in Madras as not encouraging, though there was still hope there. In Cochin, also, in spite of modest progress in membership, working capital and total transactions, the Registrar had reported such societies 'as difficult of improvement as the societies for the depressed classes'. In Travancore itself the fishermen's societies had deteriorated, but the Committee saw 'a great future for this industry with the help of the co-operative movement', given better inspection and audit.[385]

The fishermen's society at Aroor in Travancore had got twice as much as other fishermen for their catch, but had been forced to abandon the attempt to avoid middlemen's charges by the threats of the local merchants, the fishermen's creditors, to sue the men.[386] Thus among fishermen we find the same story of dependence upon middlemen creditors and the latters' opposition to co-operative efforts, as also, alas, the difficulty of overdues, which in Punjab amounted for such societies in 1937 to 96·4 per cent of loans outstanding, particularly disappointing in view of the Registrar's

enthusiasm in his report for 1920–21 about their working when first organized. In Orissa, in 1945–6, the fifty-five fishermen's credit societies had overdues of Rs 26,000 out of loans of Rs 28,000 outstanding; only Rs 2,000 was advanced during the year and Rs 5 collected ! Steps were being taken to wind up these societies and to replace them with non-credit societies.[359] Sometimes, as notably in West Bengal, opposition from vested interests and departmental inertia have stood in the way of the development of co-operative fishery societies.

A brief reference may be made to recent data regarding co-operative fisheries societies in some of the states. Maharashtra had 188 fisheries societies in 1961–2, with sales totalling Rs 43·55 lakhs. There is an apex institution for these societies whose main work is to provide fishing appliances and to undertake, on a commission basis, wholesale trade in fresh and dried fish delivered by the societies or individual fishermen. The Director of Fisheries in Maharashtra gives technical advice to the fishery co-operatives and meets their long-term financial needs. In 1961–2 Madras had 325 fishermen's societies with a membership of 42,300. They issued loans to members to the extent of about Rs 11 lakhs. The value of sales made by the societies came to Rs 2·79 lakhs. The number of fisheries societies in Kerala and Orissa came to 311 and 116 in 1961–2, with sales valued at Rs 9·06 lakhs and Rs 11·21 lakhs respectively. The Saurashtra region in Gujarat is well known for fisheries societies. In the whole state there were 64 societies with sales of Rs 41·01 lakhs in 1961–2. In the whole country there were 2,538 fisheries societies in 1961–2 which advanced loans to an extent of Rs 0·50 crore and sold fish to the value of Rs 1·44 crores. These societies had 268,000 members.

Egg production and sale societies, an industry claimed to be suitable to the poorest, are especially encouraged in Madras, through recurring subsidies to each and free supervision by a special staff, but they are also found in other states. In 1961–2 there were 5 unions and 533 societies dealing with eggs and poultry in the country, with sales of Rs 5·64 lakhs.

Before concluding this section on industrial societies, reference should be made to the setting up by the Government of India in 1953 of the All-India Khadi and Village Industries Board for the development of khadi and village industries in the country, including the training of personnel; manufacture and supply of equipment; supply of raw materials; marketing and research; and study of the economic problems of different village industries. The Board was made into a Commission by an Act of Parliament in 1956. Khadi is perhaps the most important industry within the purview of the Commission. The expenditure on the development of khadi for the period 1953–6 was Rs 11·4 crores.[387] The grants and loans provided by the Commission for the development of khadi and village industries in 1961–62 came to Rs 7·75 crores and Rs 17·51 crores.

Better-Farming Societies

Besides the better-farming societies so-called, several groups seem to fall properly in this category, including societies for the consolidation of land-holding, for irrigation and land reclamation, collective farming societies, societies for cattle and sheep breeding and dairying societies.

Better-farming societies proper aim at the adoption by their members of better agricultural methods, the supplying of good seed and improved agricultural implements, and the demonstration and encouragement of improved practices. They are in many cases multipurpose societies in fact, creating funds from subscriptions, donations and deposits[388] for loans for approved purposes, with purchase and sale activities as well. In Punjab, which had the largest number of such societies, 261 with 5,969 members in 1945–6,[388] the distribution of improved seed and agricultural implements has been a major activity.[389] The work of the cane-growers' societies in Uttar Pradesh and in Bihar, which falls partly in this category, has been discussed in connexion with marketing societies, as have the various other societies centering round the supply of a single product. The growers' associations in the Central Provinces and Berar, which in 1944–5 had a working capital of Rs 11·6 lakhs and profits

of Rs 99,799 seem also to be of this type.[257] Bombay had, in 1946–7, 76 better-farming societies which the Co-operative Department had decided to provide with trained agricultural assistants as secretaries.[390] Reference may also be made to the taluka development associations in Bombay[321] and the agricultural improvement societies and agricultural demonstration societies in Madras and the block development and marketing unions in Uttar Pradesh. These unions in Uttar Pradesh run seed stores which distribute improved seed, and also manure and agricultural implements.

Expert advice from the Agricultural Department is as necessary to the success of agricultural improvement societies as advice from Industrial Department experts is to that of industrial societies. Where little attention can be given them, for want of sufficient staff, as was once mentioned with regard to Kashmir, such societies have done practically no work.[391]

Better-farming societies are on a limited liability basis. The area may be one village or a group of villages. Members have to agree on joining to adopt such improved agricultural methods as the society may decide upon at a general meeting.[388] There were 968 better-farming societies in the country at the end of June 1960. The impression one gets is that this type of society dealing with better farming has been neglected in recent years during which there has been a great deal of propaganda and effort with regard to co-operative farming for cultivation.

One of the most beneficial aspects of the co-operative movement has been claimed to be that concerned with the consolidation of land holdings. The serious evils of fragmentation of rural holdings in a country of small estates where there is no rule of primogeniture have been mentioned. As early as 1921 the Punjab Government undertook to meet them by co-operative effort and by the end of 1945–6 over one and a half million acres had been consolidated.[392] Over a million acres had been consolidated in the Central Provinces and Berar by 1946.[393] There has also been activity in this line in Uttar Pradesh[394] and in Kashmir, where this was the most important agricultural co-operative activity next to credit,[395] in Madras, in Delhi, in the North-

West Frontier Province (now part of Pakistan)[396] and in Baroda[397] and Hyderabad.[398] The cost per acre ranged from Re 1–8–0 in Uttar Pradesh in 1944–5[394] to Rs 9–4–0 in the North-West Frontier Province in 1945–6.[399] Consolidation of holdings societies have recorded practically no progress in recent years. In Punjab, a separate department is attending to the work of consolidation. Co-operative societies set up for the purpose in the past are being cancelled. In Uttar Pradesh, the work of the consolidation of holdings societies in 1954 resulted in consolidating 17,560 acres of land; the number of plots was reduced from 53,658 to 4,452. But recent data available show that the work of the societies is at a standstill. The three consolidation of holdings societies existing in Madras appear to be inactive.

Village improvement work of various types, the sinking of wells, the laying of roads, etc., has commonly been undertaken in connexion with the co-operative consolidation of holdings. Societies for the consolidation of holdings cease to function as soon as their work is done, but the benefits are so palpable as to have made the beneficiaries more receptive, it is claimed, to co-operation as a solution for other economic and social problems.[400] So valuable, in fact, were the benefits of co-operative consolidation felt to be as propaganda for co-operation generally, that Mr F. B. Wace in 1939 called the provision of free consolidation by the Revenue Department's staff a stab in the back of co-operative consolidation.[401]

The most undesirable feature of this activity, from the standpoint of co-operative principles, is the compulsory feature which had marred it in Punjab, Madhya Pradesh, Uttar Pradesh and Baroda, where consolidation was undertaken if a certain proportion of the villagers, from one-half to two-thirds, owning from two-thirds to three-fourths of the land, agreed to have it done.[397] The present writer does not believe in what the Reserve Bank once called 'judicious compulsion' under the co-operative banner and welcomes rather the enactment in 1947 of the Bombay Prevention of Fragmentation and Consolidation of Holdings

Act, which provides where necessary for the official checking of fragmentation below the minimum area that has been determined to be cultivable separately, and for compulsory consolidation by a Consolidation Officer under a prescribed procedure designed to safeguard the interests of all concerned. The state can appropriately, under a democratic regime, do in the common interest what co-operative effort can accomplish only by a denial of its fundamental principles; where voluntary consolidation cannot be effected, the co-operative societies should keep out of it.

Sir Edward Maclagan called irrigation 'a touch of Midas for Indian soil.'[402] It is, of course, a very large factor in increasing yield per acre.[403] We have seen some of the valuable contribution that has been and is being made by the great irrigation projects in different parts of the country, the Bhakra-Nangal Project in Punjab and Rajasthan, the Hirakud Dam Project in Orissa, the Damodar Valley Project in Bihar and West Bengal, the Tungabhadra Project in Andhra Pradesh and Mysore, to mention but a few. The Saraiya Committee suggested that much of the field work connected with the distribution of water from state irrigation projects could be turned over to co-operative societies.

Co-operative effort normally finds its role in connexion with irrigation in projects which may be within the means of a group but are beyond those of the single cultivator, such as the digging of wells, the clearing of silt from irrigation channels, erection of small dams, etc. Co-operative irrigation societies in some areas in Bengal, which had over a thousand such societies, were said to have 'changed the whole outlook of the people and strengthened their general economic position'.[404] However, after partition, West Bengal had only 287 irrigation societies in 1961–2 with a membership of 8,688. About 22,000 acres were brought under irrigation by these societies. Uttar Pradesh had 487 irrigation societies in 1961–2 out of which 390 were dormant. There were 43 irrigation societies in Andhra Pradesh, 155 in Gujarat, 119 in Maharashtra, and 20 in Madras. The total number of acres irrigated by these societies was 14,216 in

Andhra Pradesh, 13,227 in Gujarat, 11,008 in Maharashtra, and 5,726 in Madras. There is a scheme for co-operative lift irrigation in Bombay (now Maharashtra). The total financial assistance made available by the government since the inception of the scheme about seven years ago was about Rs 1 crore consisting of loans and subsidies.[405] In 1961–2 there were 238 irrigation societies in Punjab which provided facilities for the irrigation of 79,905 acres. At Avasari Khurd, a village in Poona District of Bombay State, a dam 100 feet long and 30 feet high was constructed in 1946 by the co-operative effort of the villagers themselves. It was stated that the dam would hold nearly 2,260,000 gallons of water and would irrigate more than 1,500 acres. The Saraiya Committee's verdict was that irrigation societies had not been very successful so far but had indicated the possibilities.

Closely related to the irrigation societies are those for land reclamation. There were many such societies in low-lying areas of undivided Bengal, their purpose being to construct embankments to keep out flood water.[406] An embankment society in Orissa, described in the Registrar's report for 1945–6, had erected by the members' labour large embankments with sluices, the landlord of the estate contributing nearly half the cost.[407] In 1955-6 there were a few embankment societies in Orissa, but there was nothing worth mentioning about their activities. Punjab in 1943–4, i.e. before partition, had 145 land reclamation societies with 2,139 members and also, erosion having progressed threateningly in that state, 274 *cho* reclamation societies with 10,237 members, *cho* lands being those eroded by hill torrents.[408] The bunding of fields to prevent erosion is another activity that lends itself well to co-operative effort. Punjab has now more than 800 societies for soil conservation, land reclamation and afforestation. These societies are reported to have done useful work.

Societies for the protection of crops against wild animals, etc., by fencing, the construction of walls, or the engaging of watchmen are a feature in Maharashtra.

Societies for cattle-breeding were more important than

numerous in the Indian peninsula before partition, which was estimated to have one-third of the world's total cattle wealth, including some among the world's finest cattle for tropical and subtropical regions. India is estimated to have 19 per cent of the world's cattle, 18 per cent of goats and about half of the world's buffaloes. Partly because proper attention has not been paid to breeding for milk production as well as for draught purposes, the milk production has been very far short, however, of the need for *per capita* consumption. It may be mentioned incidentally that of the 21,000,000 tons estimated some years ago to be the annual production, only 27 per cent was used as whole milk.[409] The total production of milk which was estimated at 17 million tons in 1951 and 19 million tons in 1956, is about 22 million tons at present. This figure is expected to be about 25 million tons by the end of the Third Five-Year Plan in 1965–6. The average *per capita* consumption of milk, including milk products, is said to be about 4·9 ounces per day at present as compared with 4·76 ounces in 1951. Co-operative societies which take up the supply and distribution of milk must do what they can to stop the present diversion of the milk needed by the children and undernourished adults of India into industrial channels. Some other disposition of 'surplus' milk should be found than casein-based umbrella handles.

The cattle industry faces several difficulties, of which lack of conviction of the need for scientific cattle breeding can be met by propaganda, the high incidence of cattle diseases by the provision of veterinary services on an adequate scale, and the dearth of good fodder can be corrected to a considerable extent by co-operative societies for ensilage of the surplus grass crop which otherwise goes to waste.[295]

Punjab once led in co-operative cattle breeding. In 1943–4 it had 739 out of India's total of 824 societies.[410] Uttar Pradesh had cattle-breeding societies so-called but most of them merely gave credit for cattle purchase and did nothing in breeding or development. There is nothing noteworthy to report at present about these societies in

either state, though numerically Punjab has about 236 societies. The few cattle-breeding societies in Madras are reported to have done useful work. Maharashtra has a few cattle-breeding societies engaged in activities such as maintenance of pedigree bulls and grazing lands. The system in Ceylon described several years ago by Mr H. Calvert, former Punjab Registrar, may offer the solution to the Indian agriculturist's draught animal problem. He writes that in Ceylon 'small owners own no cattle and grow no fodder crops; there is a class who hire out cattle and feed them; this results in an enormous saving of both cattle and land.'[411]

Such an arrangement should not be beyond the power of co-operative effort. It may be noted in this connexion that a co-operative dairy for the collective ownership and management of cattle was proposed by Shri K. S. Venkataramani in his village uplift scheme.[412]

The Saraiya Committee (1946) recommended 25 to 30 societies to a union and the handling of pasteurizing and distribution by consumers' milk distributing societies, but the Fifteenth Registrars' Conference felt that separate societies for milk distribution were desirable only where no union of milk producers existed. The Saraiya Committee also recommended the formation of milk producers' co-operative societies in the villages within a radius of thirty miles of towns having a population of 30,000 or more. Their scheme called for about 300 milk unions to be started within five years with generous state support. Under the Second Five-Year Plan it was proposed to organize 36 urban milk supply schemes, 12 co-operative creameries and 7 milk-drying plants. However, owing to shortage of foreign exchange and difficulties in getting plant and machinery, the dairy development programmes had to be confined mostly to those schemes for which equipment was available within the country or was provided under foreign aid programmes. In all, 28 milk supply schemes are now in various stages of growth. During the Third Plan, it is proposed to take up 55 new milk supply schemes. A provision of Rs 36 crores has been made for dairy schemes in the Third Plan. Milk

producers' co-operatives are expected to be organized in villages to supply milk to the urban milk supply schemes, creameries and milk-drying plants. It is also proposed to promote the distribution of toned milk in urban areas. Meanwhile, some states have made some progress in the sphere of co-operative milk supply. In Maharashtra, where there is a plan for the development of the dairy industry on co-operative lines with state aid, there were 695 milk producers' societies and 24 milk producers' unions at the end of June 1962. Special reference should be made to the Kaira District Co-operative Milk Producers' Union at Anand in Gujarat which is run on up-to-date lines. It supplied milk to Bombay's modern Aarey Milk Colony. The union sold milk and milk products to the value of about Rs 3 crores in 1961–2. It converts surplus milk into milk powder.

There were 16 co-operative milk supply unions and 502 co-operative milk supply societies in Andhra Pradesh in 1961–2. A major part of the product handled by the co-operatives was sold as milk. The government provided various types of aid to the co-operatives such as loans and subsidies for the construction of buildings, purchase of milk vans, etc., and provision of expert staff. The value of milk sold during the year by the unions and societies amounted to Rs 11·63 lakhs and Rs 26·68 lakhs. In Madras there were 21 co-operative milk supply unions and 1,222 co-operative milk supply societies. The value of milk and milk products sold by them in 1961–2 amounted to about Rs 1 crore and Rs 2 crores respectively. Of the 1,222 milk supply societies, 808 were affiliated to the unions. The remaining societies sold milk directly to consumers. The milk required by state hospitals, jails, child-welfare centres and maternity homes run by local bodies was provided by the milk co-operatives which, in addition, served college hostels, employees' canteens, etc. Special mention may be made of the Madras Co-operative Milk Supply Union. More than 2,000 families were served with milk at their doors. The Madras Government has given strong support to the milk societies and unions, sanctioning a special

technical staff, providing loans for purchase of milch cattle and of motor vehicles, etc. Uttar Pradesh had 10 co-operative milk unions in 1961–2, with primary societies affiliated to each. The main function of a union is to collect milk from its member-societies, and process and market the milk in the towns in which they are located, through sales depots and vendors. The Government of Uttar Pradesh assisted the milk co-operatives in ways such as provision of grants and interest-free loans and the appointment of technical staff. The value of the milk sold during 1961–2 by the 289 primary milk societies and 10 milk unions came to Rs 9·53 lakhs and Rs 49·34 lakhs. In West Bengal, the primary milk societies deliver their milk to the Milk Societies Union in Calcutta which arranges for the processing and sale of the milk and milk products. An officer of the Co-operative Department has been provided free of cost to the union. There is another union in Burdwan which has made a small beginning. The value of milk sold by the 92 societies in 1961–2 came to Rs 3·25 lakhs while the value of milk sold by the unions stood at Rs 3·89 lakhs.

Gujarat is ahead of all other states with regard to the progress of milk co-operative societies. The sales of milk by the 7 unions and 370 societies came to Rs 1·98 crores and Rs 3·03 crores.

The Saraiya Committee recommended co-operative societies for sheep breeding in hilly regions where sheep are bred on a large scale. Madras has done a little with co-operative sheep breeding.[413]

Joint cultivation and land colonization schemes form the last major group of co-operative societies in the better-farming category. Colonization schemes for the depressed classes will be referred to in connexion with co-operative efforts in general on their behalf, but we may mention here the 26 land colonization societies for the landless poor in Madras at the end of 1946–7, of which 24 were under the Co-operative and the other 2 under the Revenue Department. Out of the 10,701 acres assigned to these societies, 8,891 had been brought under cultivation, in spite of the handicaps of lack of irrigation facilities, poor soil and

malaria. Well-digging, children's education, arbitration, thrift encouragement, the joint purchase and distribution of domestic and agricultural requirements, and the encouragement of subsidiary industries were among the lines of effort in connexion with these societies.[414] In 1959–60 Madras had 28 land colonization societies. The government gave interest-free loans and grants to these societies, which are for the benefit of the landless labourers. In 1959–60, they cultivated 7,040 acres of land.

Travancore had ten land colonization and joint-farming societies in 1945–6,[415] and in 1959–60, Maharashtra had 96 joint-farming societies. The Central Provinces had in 1945 only two better-farming or co-operative cultivation societies, both looked after by an Agricultural Department officer.[416] In the Muzaffarpur experiments in co-operative farming described by Rai Bahadur R. K. Prasad, Bihar Registrar, in *Indian Farming* for February 1946, land ownership is retained but voluntary contracts are signed, turning over the lands to the societies for co-operative cultivation under a sub-committee with the guidance of the Co-operative and Agricultural Departments. The services rendered by each are taken into account in the profit distribution.

The co-operative fruit garden colony scheme in Punjab for people of education and some means is another recent development.[417] There were 95 fruit growers' societies and 28 garden colonies in Punjab in 1959–60. After partition, special efforts have been made to organize such colonies for the benefit of displaced persons.

The Saraiya Committee analysed at some length the different types of co-operative farming societies and recommended for each district at least two better-farming societies with state aid for staff and state loans, and two demonstration co-operative joint-farming societies, the state to meet the entire expenditure on their establishment and to guarantee, if necessary, the required loans from a central or land mortgage bank.[418] In this type of society the small owners would pool their land and work under an elected committee and its appointed manager. Dividends would be in proportion to the value of the land of each. The produce would

be sold collectively and, after the payment of wages, payment for the use of land and the cost of management and the setting aside of the reserve, the profits would be shared in proportion to the wages earned by each. Members might withdraw, paying the cost of any improvements made on their land by the society.[419]

The Co-operative Planning Committee is to be congratulated on its rejection of the features of state control and irrecoverable loss of ownership in the joint-farming societies which it recommended. Shri V. T. Krishnamachari, in his presidential address on 11 April 1948 at the Bombay Provincial Co-operative Conference, said emphatically that collective farming on the Russian pattern was unsuited to Indian conditions, which were entirely dissimilar. India could not stand a shock of this character to her economic system.[420] This is true even today.

The report on *Collective Farming in Bombay Province* (1947) recognizes as difficulties in the way of joint cultivation its novelty, the farmers' attachment to their own holdings and their suspicion of change.[421] The Indian's independent spirit and his litigious tendency might have been added—and joint-farming projects offer endless occasions for dispute. The conclusion reached in that report was that generally better-farming societies are better suited to the agriculturists' present psychology.[421]

The recommendation of the Fifteenth Conference of Registrars that a delegation including a representative of the co-operative movement be sent to the U.S.S.R. to study the working of collective farming there[52] might better have been to study in detail the Jewish Histadrut settlements, where remarkable results have been achieved in collectivization without the sacrifice of democratic principles.[422]

Shri Manilal B. Nanavati feels that 'owing to the difficulties and the delay involved in starting co-operative farming societies ... it is futile to place too much faith on this method under existing conditions'.[423] Many apparently shared, however, the conviction of the Hyderabad Registrar in his report for 1943–4 that 'in farming on a large scale

on a co-operative basis lies the future development of agriculture and the welfare of the agriculturist'.[424]

It might repay the effort to see what can be done on co-operative lines in developing the idea of joint cultivation by mutual agreement on a yearly basis as found in *lána* partnerships which had arisen spontaneously in Punjab.* Co-operation is so largely a hothouse plant in India and Pakistan that it lacks sometimes the vigour of spontaneous growth. Where the foundation seems already to be laid, full advantage should be taken of it.

A conservative attitude towards collective farming societies on the lines so far tried seems justified by the experience in Cochin, where only one out of three such societies, the Annamalai Collective Farming Society with 224 members, has worked well. Its net profits of Rs 12,519 in 1946–7 were doubtless derived partly from the fair price shop which the society conducted at a hill station.[425] In Madras, 3 out of the 12 land colonization societies started since the war for ex-servicemen had to be abandoned by 1948, having worked at a loss.[426] That, however, was not a joint-farming experiment proper, each man receiving a plot of five acres of wet or ten of dry land and cultivating his own block with such help as the society might provide.

Co-operative societies for reforestation may be mentioned here as a possible development of great importance to agriculture, not only for the profit they might bring to their members but also as a source of fuel, releasing natural fertilizer for the soil, and as a bulwark against erosion on the lower levels. Societies for forest workers are a hopeful development in Punjab and in Maharashtra. In Punjab in 1943–4, forest societies in 54 villages earned about Rs 25,357 from the sale of forest products and deposited Rs 6,285 in the thrift campaign.[408] In view of the great need for more forests, the forest area being inadequate in several northern states particularly, a constructive pattern was offered by the Punjab Forest Department's turning over to thirty village forest societies in 1943–4 the protection,

* See pp. 44-5

management and improvement of all forest areas under their jurisdiction. The plans were made in consultation with the villagers and inspection and supervision divided between the Forest and the Co-operative Departments.[427] The use of such societies for afforestation under Forest Department supervision has important possibilities.

The Reserve Bank of India has described in its Bulletin No. 4 the great success attained by the 'Shamlat' society in Panjawar in the Hoshiarpur District in Punjab, a success growing out of the experiment in the owners' co-operative management of the village waste land, on which trees were planted, etc. In Punjab the forest societies constituted a feature of the co-operative movement in a few districts. These societies are concerned with re-afforestation of third-class forests and general forest management of areas entrusted to them by the government.

One of the types of co-operatives in Mexico offers a pattern which might perhaps be investigated with profit both for joint-farming and reforestation societies. In it the society, 'with state participation', exploits government lands and shares the profits with the government.[428]

This section on farming societies will not be complete without a reference to recent developments concerning them. We may begin by mentioning the present position in regard to the various types of farming societies, the data available relating generally to 1961–2. There were 23 collective farming societies in Andhra Pradesh, with 2,336 members. About 7,300 acres were commanded by these societies out of which the area under cultivation was about 4,500 acres. These societies are given government waste lands. The colonist has no right to sub-let, mortgage or otherwise encumber his holding, which is impartible. The societies are given state aid. Besides, there were a few land colonization societies exclusively for ex-servicemen and about 1,000 tenant farming societies which took land on lease or assignment mainly from the government and temple authorities and distributed such land among their members for cultivation. Most of the tenants and field labourers' societies appear to be working at a loss. Assam

and Bihar had 223 and 149 societies respectively included under the 'farming' group. In Orissa there were 40 joint-farming societies. There were 585 farming societies in Maharashtra consisting of 204 joint-farming societies and 381 collective farming societies with a total membership of 13,290. The area commanded by these two types of societies came to 95,679 acres of which the area under cultivation totalled 54,482 acres. The Registrar's report for 1955–6 mentioned that the progress of joint or collective farming societies has not been encouraging for reasons such as the instinct for individual possession, general lack of leadership and absence of trained personnel. The Report also noted that while the co-operative farming scheme had made progress mainly with regard to the lands made available by the government and also to some extent in relation to private lands taken on lease from landowners, the progress made 'in the field of individual cultivators grouping themselves together and pooling their own lands for taking advantage of a larger unit of cultivation has been very small.'[429] These comments were generally valid even in 1961–2.

There were 141 co-operative farming societies in Madhya Pradesh, of which only 100 were actually working. Apart from the 28 land colonization societies and the 6 land colonization societies for ex-servicemen, Madras had 2 colonization societies in respect of private lands taken on lease. These two societies received help from the government such as loans for reclamation of land and purchase of bullocks. In general, the land colonization societies have been formed for the benefit of landless labourers. The government lands assigned to the societies are parcelled out to their members for reclamation and cultivation, the government also providing loans and subsidies to the members for the payment of the initial share capital, for reclamation of land and for purchase of seeds, manure and bullocks. Some of the societies could not work successfully. In 1961–2, Madras had 36 joint-farming societies and 3 collective farming societies. Punjab had 952 joint-farming societies and 27 collective farming societies which under-

took agricultural operations covering 73,586 acres of irrigated land and 41,643 acres of non-irrigated land. Some of the co-operative farming societies in Punjab were formed by persons who obtained land for farming under the Waste Land Utilization Act. It is claimed that, normally, the societies consist of owners of land who have pooled their land for joint cultivation. There were 465 joint-farming societies and 45 collective farming societies in Uttar Pradesh, which had 71,480 acres under cultivation. The joint-farming societies, which constitute the largest group, have been established mostly in areas where large waste lands are held by members who do not have enough resources to reclaim such land and bring it under cultivation. There were 33 joint-farming and 167 collective farming societies in Gujarat. West Bengal had 39 joint-farming societies and 58 collective farming societies. The number of joint-farming and collective farming societies stood at 36 and 46 in Mysore and 189 and 146 in Rajasthan.

From the above account it will be seen that co-operative farming, in the real sense of the term, namely pooling of land by its owners and cultivation on a fully joint basis, is generally absent in India. In this context, Sir Malcolm Darling, in his Report on Co-operation in India, observed as follows:

> Some of the co-operative farming societies have been formed less to practise genuine collective farming than to obtain the very liberal assistance granted by state governments to promote this type of farming. Some are little more than family concerns, a few members of which do the farming with the help of paid labour while the other members employ themselves in other occupations.
>
> The employment of regular paid labour seems not uncommon in these societies, and where this is so, the society may do little more than take the place of the landlord who farms his own land. Many societies do not function at all. This applies to 44 per cent of the 71 registered in PEPSU and to nearly 80 per cent of the 87 in Rajasthan. In these two states there is evidently need for greater strictness in registering co-operative farming societies. Window-dressing is one of the dangers of planning against time.
>
> There are some good co-operative farming societies in Uttar Pradesh and no doubt elsewhere as well, but in general comparatively few actually work collectively. Yet everywhere the term 'co-operative farming' seems to be regarded as necessarily involving farming on this basis. In Italy, the first country to develop co-operative farming, it is used of any society the members

of which have voluntarily joined together in order to lease or purchase land and *cultivate it on lines prescribed or approved by the society*. The cultivation may be done on an individual or a collective basis, but in the former case it must be done on prescribed or approved lines, otherwise it will differ little from an ordinary better-farming society.[430]

Sir Malcolm suggested that much more attention should be paid to what he called 'co-operative farming on an individual basis', referring in this connexion to Dr Otto Schiller's study on *Individual Farming on Co-operative Lines*.

India's Second Five-Year Plan, while maintaining that there is general agreement that co-operative farming should be developed rapidly, noted that the practical achievements in this sphere were meagre. The Plan indicated that the main task now 'is to take such essential steps as will provide sound foundations for the development of co-operative farming so that over a period of ten years or so a substantial proportion of agricultural lands are cultivated on co-operative lines'. It was added that at this stage of development 'considerable flexibility is needed in the manner in which lands may be pooled and operated in co-operative units. A variety of forms of organization can be considered and in different situations, different combinations of arrangements are likely to yield the best results.' The Plan proceeded to state that co-operative farming societies formed by voluntary groups should receive special assistance from resources made available under agricultural production and other programmes, stressing the need for widespread training in carrying out a programme for the development of co-operative farming.[431]

Attention was focussed recently on co-operative farming with the publication in May 1957 of the *Report of the Indian Delegation to China on Agrarian Co-operatives*. After examining the various objections raised to co-operative farming, the Report stated its objective of having at least one co-operative farming society in every group of fifty villages by 1960–61, or about 10,000 societies. The Report suggested that an effort should be made to organize as many societies as possible in Community Project Areas and National Extension Blocks which have been in

existence for two years. It stressed that the 'principle of voluntariness should be scrupulously adhered to' and that a person 'should be free to leave a co-operative society whenever he chooses to do so, but this should be permissible at the end of a season'. It was further indicated that whereever a sizable area of government land is available in which rights have not accrued to individual peasants, it should be settled with co-operatives consisting of landless agricultural workers for co-operative farming. Small owners and tenants should also be admitted to these co-operatives wherever they agree to pool their lands. The Report was in favour of a quick survey of the existing societies so as to ensure that only genuine co-operative societies were retained and helped. It also suggested that state aid of various types should be made available to co-operative farming societies. The Report mentioned that, at the national level, the responsibility for planning and promoting programmes of co-operative farming should be entrusted to the National Co-operative Development and Warehousing Board (since reorganized as the National Co-operative Development Corporation), assisted by increased contributions from the Government of India, if necessary, to finance the programme.[432] Two members of the delegation appended a minute of dissent.

If any comprehensive programme of co-operative farming has to be introduced, it is obvious that as a preliminary to it a number of complicated problems likely to arise will have to be solved, such as the Indian farmer's deep attachment to his own plot of land and unwillingness to merge it in a scheme of co-operative farming; getting suitable technical and managerial staff; and finding the resources to finance the projects. If, as recommended by the Report, the responsibility for planning and financing is vested in the National Co-operative Development and Warehousing Board (now the National Co-operative Development Corporation), this might stand in the way of the Board's fulfilling the important role assigned to it under the Five-Year Plans of promoting the development of co-operative marketing, processing, warehousing and other allied activi-

ties. Further, it would appear that a specific answer has not so far been found to the question whether a co-operative farm will necessarily mean increased production as compared with farming done on an individual basis. Expert studies such as those attempted on a very limited scale by the Programme Evaluation Organization of the Planning Commission[433] might provide an answer to this and other issues. It may be mentioned that out of a total of 3,577 joint and collective farming societies in the country in 1961–2, 1,253 societies worked at a profit of Rs 20·85 lakhs, 1,483 societies incurred losses of Rs 26·31 lakhs and 841 societies showed neither profit nor loss. Above all, the farmer's reactions have to be studied and taken into account. One may quote here the advice of Miss Margaret Digby, given in connexion with schemes for collective farming:

> . . . . After all, we want the farmer of the future, whether he is a large farmer or a small farmer, to be not less of a man but more of a man. The last thing we want is to turn independent family farmers into a proletarian mass managed by officials. We must consider a system which is not only going to produce more from each acre of land, and from the labour of each man, not only one which will bring that man a better material reward, but, also, one which is going to make him a better citizen, a better father and a better man.[434]

The Working Group on Co-operative Farming set up by the Government of India in 1959 suggested that 3,200 co-operative farming societies should be set up, as pilot projects, at the rate of about 10 in each district, to start with. In the pilot projects and in other co-operative farming societies selected for assistance, provision has been made for the government's making available to each society, medium and long-term loans to the extent of Rs 4,000, loans and grants up to Rs 5,000 for construction of godown-cum-cattle sheds and a grant of Rs 1,200, spread over a period of three to five years to meet the cost of management. In the pilot projects there is provision for state participation in share capital up to Rs 2,000 in each society, which should be matched by an equal amount contributed by the members. Such contributions by the state

will be retired over a period of ten years and are specially intended for societies composed predominantly of landless labourers and marginal or sub-marginal farmers. For the pilot projects, the state plans, under the Third Five-Year Plan, have provided for an allotment of about Rs 6 crores. A similar amount has been set apart by the Government of India to help the growth of other co-operative farming societies. The Third Five-Year Plan states that in the light of practical experience in the pilot project areas and elsewhere, it is hoped to formulate more comprehensive programmes for promoting co-operative farming. The Government of India have set up a National Co-operative Farming Advisory Board in New Delhi. Similar advisory boards have been set up in some of the states.

Transport Societies

A minor co-operative development of recent years is represented by motor transport co-operatives, found chiefly in Punjab and Madras, but also in Uttar Pradesh, Bombay, Delhi,[435] etc. Punjab had four such societies registered before the end of 1943–4. One at Montgomery had in that year 157 members and was operating on nineteen routes. It had a share capital of Rs 5·99 lakhs and a gross monthly income of over Rs 50,000. Its profit in 1943–4 was Rs 52,919.[436] The Reserve Bank raised the objection that membership in Punjab's motor transport societies was restricted to lorry owners, workers being excluded.[437] There were 357 co-operative transport societies in Punjab in 1959–60 with a membership of 10,150 and with 567 vehicles plying as goods carriers and as passenger transport. A criticism still levelled against the co-operative transport society in Punjab is that it has been formed by its promoters for their exclusive benefit, regardless of those who use and work the transport, thereby making it not a true co-operative venture.

An important scheme for motor transport societies was announced in Madras in the Registrar's report for 1946–7. Twelve primary societies were being organized to start with, with twenty primaries and a central society as the goal,

with 500 lorries and 100 jeeps. Under this scheme, sponsored by the Director of Resettlement and Employment, 289 chassis were placed at the societies' disposal and bodies were being built.[438] Madras had a few motor transport societies for ex-servicemen. These societies obtained loans from the government and from the Post-War Services Reconstruction Fund.

The possibilities of organizing country craft co-operatives were considered by the Saraiya Committee,[439] but, though such societies would be of value in the solution of transport problems, by providing channels for financial assistance and for assistance in procuring engines for members' boats, that would seem to be a development for the future.

There is now no such chronic fear of petrol shortage as might discourage the formation of motor transport societies, but the progressive nationalization of road transport, which is the announced policy of the party in power in the Republic of India, must unfavourably affect co-operative organizations in the field. However, apart from Punjab, motor transport societies have recorded some progress in Andhra Pradesh, Madhya Pradesh, Rajasthan and West Bengal. A recent development in West Bengal has been the formation of taxi co-operatives with taxi-drivers, mechanics, and cleaners as members. Twelve taxi co-operatives have so far been set up in Calcutta. Each society has about ten taxis, to start with. The state government has put in Rs 20,000 as share capital in each society.

Labour Contract Societies

If the small farm owner's economic situation and that of the industrial worker is difficult, that of the agricultural labourer and of the unskilled labourer in the cities is deplorable. This group is largely beyond the reach of many types of co-operative benefits, since they have no tangible security and no assurance of continuity of employment. Living as they do from hand to mouth, their best hope from the co-operative movement, pending the achievement of a larger measure of social and economic justice, is from the labour

contract societies, which can save for the workers the contractor's profits, save them from exploitation and, with due consideration from Public Works and Forest Department officials and from co-operative regional development, better-farming and housing societies, give their members a reasonable assurance of steady work.

The Saraiya Committee recommended that housing societies should give preference as far as possible to labour contract societies,[440] and one of the Madras societies was, in fact, composed of skilled labourers who can build modern houses.[441] Here again, however, as in the case of mutual relations between marketing and consumers' societies, a conflict of interests is implicit in the relationship; one group's gain must spell the other's loss unless there is a definite effort to ensure fair terms to both.

The large periodic unemployment among workers of this class is due not to dearth of things needing to be done, but to lack of adequate planning and organization to canalize the labour force available into useful channels.

It is obvious that a small number of men, more or less equally matched in potential output of labour, accepting a contract that allows each to earn a fair wage, is at a great advantage over the single labourer, who is at a hopeless disadvantage in bargaining for his services.

As the number of labour-contract societies grows, they must be counselled and helped to form their federations to work for their interests, for fair terms and preferential consideration in the placement of contracts. Such federations should be able, as time goes on, to take over gradually more and more of the Co-operative Department's function of supervision of these societies. But federation is still far in the future and in the meantime the primary societies have to be encouraged and assisted, for it has been the experience in Madras that the members of such societies lack the education, knowledge and business acumen to manage the societies' affairs themselves.

Labour contract societies have made some progress in Punjab, Rajasthan, Maharashtra, and Andhra Pradesh. These societies have taken up items of work involving

mainly unskilled and semi-skilled labour. The Third Five-Year Plan states that the aim should be to build up labour co-operative organizations and voluntary organizations for undertaking items of work on behalf of government departments and local bodies.

How dependent these societies are upon sympathetic patronage was illustrated by the Kangra Labour Contract Society in pre-partition Punjab with 378 members at the end of 1943–4. It had handled thirty-six contracts, but the Public Works Department had raised audit objections and the assurance of regular work at reasonable wages was gone. The society was getting no work and the Registrar said it would have to be closed, though his department had considered its work satisfactory.[436] In any case, the Public Works Department cannot be expected to provide employment for all the labour contract societies which would be required to take care of this vast impoverished sector of the population, and opportunities for private employment of labour contract society members must be sought and developed. In 1959–60, there were 853 labour and construction co-operative societies in Punjab, with a membership of 79,737. The value of the works executed by the societies in 1959–60 came to Rs 13·5 lakhs. It was reported that a drive was made to expel members who were not actual workers, but were either contractors or non-workers. To provide jobs to people affected by the floods in 1955, some of them were enrolled as temporary members and the societies undertook work in repairing damaged canals and roads. Maharashtra had 256 labour contract societies in 1959–60 with 13,096 members. They executed works during the year of the value of Rs 29·82 lakhs relating to repairs to roads, construction of buildings, etc. The societies are eligible for government loans.

Co-operative work was organized in 1947, with generous government support, among the *adivasis* of the erstwhile Bombay State, with about a dozen centres for timber cutting and charcoal manufacture. An ambitious scheme for assisting such labour contract societies was included in the programme for 1948–9 drawn up by the Provincial (State) Industrial

Co-operative Association, envisaging three depots, a fleet of trucks, etc. Much progress has been made since then. There is a committee for planning the development of forest labourers' co-operative societies with a number of official and non-official representatives. In 1959–60 there were 212 forest labourers' societies in Maharashtra with 23,457 members. There is a scheme according to which the government gives a 20 per cent overall guarantee to the Maharashtra State Co-operative Bank and the central financing agencies in respect of credits made available by them to the societies for working the coupes allotted to them. There is a special officer for the forest labourers' societies.[442] The societies made a profit of Rs 31·78 lakhs in 1959–60. Gujarat is another state which has recorded progress with regard to forest labourers' societies. There were 132 such societies in 1959–60, with a membership of 32,404. The other states where forest labourers' societies have shown some progress are Madhya Pradesh with 47 societies and Andhra Pradesh with 33 societies in 1959–60.

On the whole, the co-operative development so far in this direction is disappointing, considering the greatness and the urgency of the need, but it is not hopeless. This is a type of co-operative activity which deserves energetic encouragement and support.

The Saraiya Committee's careful analysis of the labour co-operative patterns in Italy and New Zealand, where, as in France, Palestine and elsewhere, such societies have been successful, should be of value in the planning for their development on sound lines in India.[443]

Co-operative Insurance Societies

Co-operative insurance projects are of special value for the Indian cultivator and wage-earner who lives at or just above the margin of subsistence and is therefore peculiarly at the mercy of untoward developments. The death of the wage-earner or the social necessity for an outlay for marriage or funeral expenses may start the family down the slope to growing indebtedness and ultimate economic ruin. The Saraiya Committee reported *per capita* insurance

in India as only Rs 8, as compared with Rs 2,300 in the United States and Rs 973 in the United Kingdom.[444] While only a general improvement in the small man's economic position can bring insurance within the reach of most, the present possibilities are far from having been adequately exploited. Insurance has so far not received its due of recognition as a co-operative effort.

The first ventures in the insurance field in India were with cattle insurance, which were found unsuitable for co-operative working, because of management costs disproportionate to the amounts insured, etc. Even in Burma, where they had been most prominent, they declined from 1918 on and were finally wound up.[445] Bombay, Coorg and Punjab also had such societies, but none were reported in 1955–6.[446] Such insurance is important, but the Gadgil Committee felt that without the state providing it and an efficient general system of veterinary assistance, 'the economic basis for the financing of animal husbandry would remain extremely precarious'.[54] The Saraiya Committee also felt that cattle insurance was unsuited to co-operative effort, at least until the provincial governments should have gathered statistics and worked such insurance for a while.[445] Crop insurance, it felt, might also better be undertaken by the state.

There were 6 co-operative insurance societies in India at the end of December 1961, 2 in Orissa and one each in Andhra Pradesh, Bihar, Madras and Maharashtra. All of them were engaged in general insurance. Their income from premia (less re-insurance paid) amounted to Rs 46·95 lakhs. The societies paid claims to the value of Rs 13·22 lakhs in 1961–2.[446]

The encouragement by the state of co-operative societies for life insurance was recommended by the Insurance Sub-committee of the National Planning Committee, which recognized the importance of making this necessary service available at the cheapest possible rates. The Insurance Act (1938) defined a co-operative life insurance society as an insurer having no share capital on which dividend or bonus was payable and of which the original members

applying for registration and all policy-holders were members, thus eliminating vested interests seeking large profits. The substitution of service for profits in the basis of such societies might appropriately be recognized by the government by exempting from tax the interest they earn on all their investments, as the Saraiya Committee had recommended.[447]

All the existing co-operative insurance societies have been catering chiefly for people of some means living in towns. An amendment to the Insurance Act in 1946 set Rs 1,000 as the minimum policy to be issued, which drastically affected the rural business of co-operative societies until an Act passed in 1948 exempted them from this provision. The Co-operative General Insurance Society, Hyderabad, in Andhra Pradesh, maintained steady progress. The Co-operative Fire and General Insurance Society in Madras issued 8,131 insurance policies for Rs 32·01 crores in 1959. The Union Co-operative Insurance Society in Maharashtra had a premium income of Rs 13·01 lakhs at the end of 1959.

The Saraiya Committee recommended a maximum of Rs 5,000 for co-operative insurance policies, or, with the Registrar's special permission, Rs 10,000 with certain restrictions.[447] The Bombay Co-operative Insurance Society, however, offered policies from Rs 200 up to any amount. Since, as the Saraiya Committee admitted, the larger the business of a society, the lower will be its expense ratio,[448] this would seem unexceptionable, provided reinsurance is adequately resorted to.

Rural premiums were naturally higher; smaller policies increased the overhead charges, and the waiving of medical examination where necessary, for policies up to Rs 900, increased the risk. That, however, the difference between the urban and rural rates may tend to be excessive is indicated by the recommendation of the All-India Co-operative Insurance Society that the difference between them should not be more than 33⅓ per cent.

Co-operative societies of other types have done much to help the insurance societies in some cases, by encouraging

their members to take out co-operative insurance policies,[449] premium reductions and certain other advantages being allowed to co-operative society members. Other types of societies also sometimes took the agency for the insurance company, a commission being allowed them on the policies secured.

A closer link-up between co-operative insurance and credit societies seemed to be in the interest of both, though the Maclagan Committee frowned on any financial connexion between insurance societies and the central banks, except for the deposit of the former's surplus funds in the latter, favouring the financing of insurance societies by separate reinsurance institutions.[450]

The insurance of members gives additional security for the loans of credit societies, and the suggestion of a preferential lending rate where policies are tendered as security may be worth considering. In Baroda, a number of the societies which had adopted the provident fund scheme had changed their by-laws to permit the payment of insurance premiums from insured members' compulsory savings and interest on their funds in the provident fund.[451]

The Madras Committee recommended the linking up of land mortgage credit with co-operative insurance, while recognizing that this would not be practicable for a co-operative insurance society unless the land mortgage banks gave it a virtual monopoly of their business.[452]

Madras has a Co-operative Fire and General Insurance Society, registered in 1941, its field including fire, motor, accident and fidelity insurance and insurance against theft. It has share capital, but the dividend is limited to 4 per cent and membership is open only to registered co-operative societies, by which the insurance society is largely managed.[453] In 1959 the society collected premia amounting to Rs 7·45 lakhs and settled 166 claims for Rs 1·19 lakhs. Madras also had a co-operative motor vehicles insurance society registered in 1946, but the Registrar asked for its dissolution, as it had chosen to secure registration under the Insurance Act.[438]

In Orissa, there are two co-operative insurance societies—

the Orissa Co-operative Insurance Society and the Utkal Motor Vehicle Co-operative Insurance Society. Their receipts on account of premia, less re-insurance premia, came to Rs 1·18 lakhs in 1959.

An All-India Co-operative Insurance Societies Association was started in 1945, with which the insurance societies might affiliate themselves. Another All-India Co-operative Insurance Society for fire and general insurance business has been formed since the Saraiya Committee recommended it in 1946. Such a society, as the Reserve Bank pointed out in connexion with the Madras primary society of similar type, is of great potential value to all co-operative institutions, central and primary, which advance loans against produce, affording them the opportunity to cover their risks.[453] By-laws for such a society were drawn up in 1947 by the Bombay Provincial Co-operative Institute. Continued steady progress was reported for it in 1951–2.[455] In 1956, the All-India Fire and General Co-operative Insurance Society issued about 6,200 policies. The sum assured and the premiums collected during the year came to Rs 12 crores and Rs 3·6 lakhs.[456] This society is now called the Union Co-operative Insurance Society. In 1959, it had a membership of 301 and insurance funds of Rs 6·58 lakhs.

Considering the low level of co-operative efficiency in some areas, it seemed impossible to endorse the Saraiya Committee's recommendation that a co-operative life insurance society be formed in each province with co-operation from societies of various types.[447] On the other hand, an arrangement under which each insurance society considered the whole of the Indian Dominion its legitimate field, could not be in the interest of efficiency. The Coorg Registrar, for example, reported that in 1946–7 the Provincial Bank there was considering taking up the agency of the Bombay Co-operative Life Insurance Society,[457] and the list of banks where premiums might be paid on the latter showed a very wide area of operations. Co-operative societies competing against each other, in each other's home territories as well as outside, appears

not only unseemly but undesirable from every point of view. The financial stability promoted by large-scale operations coupled with skilful management is of particular importance in connexion with a life insurance society, which is virtually a public trust. And since every policy-holder in such a society is a member, there is no loss of theoretical democratic control because the organization operates across state lines. To have it do so may, in fact, help to check the unfortunate tendency to divisiveness which brought about the partition of India and still threatens the unity of the parts. But the way is not to have all societies operating all over the map. All this is theoretical now in so far as co-operative life insurance was nationalized along with all other life insurance companies in January 1956.

The Industrial State Insurance Act, to implement which an Employees' State Insurance Corporation was set up, will meet a need in the field of social insurance. A beginning was made in Delhi and erstwhile Ajmer-Merwara with health insurance and medical relief for workers in perennial factories, but the plan envisages ultimately maternity, disablement and dependency benefits also for industrial workers throughout the Indian Republic. The employees' state insurance scheme is now in operation in 132 industrial centres and covers about two million workers. Even when co-operative insurance societies were functioning, the scheme did not affect them, as very many of the factory workers whom the scheme might have benefited lived too near the margin of subsistence to take out even small co-operative insurance policies.

It was a different thing when the Co-operative Insurance Society of Trivandrum, started in 1932, was discouraged out of existence by the Travancore Government throwing open to the public its state life insurance scheme at lower rates than the society could offer, and with additional advantages.[458] The important thing, of course, is that insurance at reasonable rates shall be available to all. If this service is offered by the state, there are plenty of other avenues of service for the co-operative movement.

Co-operative Housing Societies

It is common knowledge that there is a severe shortage of houses in both urban and rural areas in India. Many of the available houses are of the sub-standard variety. In the big cities slums are too much in evidence. In the rural areas, houses are generally ill-ventilated and of poor quality. The housing situation has become so acute, especially in crowded centres, that the possibilities which co-operative societies offer towards its solution give them an importance in the co-operative picture to which their numerical strength would hardly yet entitle them. The shortage and high prices of building materials, initially arising out of war conditions and which still continues, coupled with the economic situation generally, has affected private effort in this direction and the middle classes at least must look largely to co-operation for the solution of their housing problem. Along with building material priorities, cheap credit is required by co-operative housing societies, and their success will depend in part upon whether these are forthcoming.

Of India's housing societies in 1944–5, 129 were in Bombay and 114 in Madras. The rapidity of the advance thereafter can be judged by the statement of Bombay's Minister for Labour and Housing in inaugurating the Bombay Co-operative Housing Federation on 11 July 1948, that 105 new co-operative housing societies had been registered during the previous two years. The Bombay Registrar reported, however, that up to June 1947 few of the societies had been able to proceed with their building programme, due to difficulties in getting materials.

Housing societies have been an important development in Sind, now part of Pakistan, especially in Karachi, and Hyderabad.[459] Baroda had several new housing societies registered in 1945–6.[460] Gwalior had 10 housing societies in 1945–6, though only 2 were working.[461] The Central Provinces and Berar had 14 housing societies in 1944–5, of which 6 were dormant. There were no proposals for new societies, due to the high cost of materials.[462]

Few of the thirty-one housing societies in the United

Provinces (Uttar Pradesh) in 1944–5 constructed houses, though some acquired land and distributed it to members. The management of two had to be superseded and their working taken over by the Co-operative Department.[365] One building society was working in Orissa in 1945–6. It had no overdues and made a profit of Rs 2,452 during the year.[228] The Mercara House Building Society in Coorg had been doing well, providing tenements to many needy members.[463] A special effort was planned to develop housing societies in Bangalore, Shimoga and Mysore, the Mysore Registrar indicated in his report for 1945–6.[464] The Government of Assam was reported in April 1948 to have sanctioned an appropriation of Rs 80,55,000 to start co-operative building and housing societies.

Housing societies in India have fallen into two main categories: the individual home ownership type, which is in effect a specialized kind of co-operative credit society, though the society, in addition to financing the building with loans, taking a mortgage on the house as security, assists also in various ways with planning and counsel; and the tenant-co-partnership society, the members of which own a building in common. In the latter type of society, the members pay a small entrance fee and subscribe to one or more shares, paying in instalments. Deposits and loans make up the rest of the society's working capital. Tenants become owners on paying a fixed rental over a period of years calculated to cover the cost of construction and upkeep.[465] The latter type of society is the more common in Maharashtra, the former in Madras.[466]

The financing of housing societies by the co-operative banks is not in general feasible or desirable because of the long time the loans, derived in the case of apex banks and central banks from short-term deposits, have to be locked up.[338] Here and there, however, the latter had turned to this business in the past as an outlet for their surplus funds. The land mortgage banks are not available for urban housing societies, though they might find in rural housing societies an outlet for their funds, if they have surplus resources. But this is not the position now. The Reserve Bank

had suggested a central financing agency in each state for house-building societies exclusively, and also the introduction of a system of insuring the lives of housing society members for the full value of the houses built for them.[355] This would, of course, add to the cost of a housing project to members and thus narrow still further the benefits of co-operative housing, and so seems inadvisable for projects of the quasi-charitable type.

The central government came directly into the housing picture in August 1948, with the sanctioning of a loan of Rs 64 lakhs to Rajasthan to finance the Pratab Nagar Township scheme sponsored by the Udaipur Co-operative Society for refugees from Sind. The plans called for 3,000 houses for 20,000 displaced persons, a school, a dispensary, a power house, waterworks and roads, at an estimated cost of Rs 74 lakhs. The Rajasthan Government gave a free grant of land and a loan of Rs 4 lakhs on its own account. The Subsidized Industrial Housing Scheme of the central government was introduced in September 1952. Under it, the central government gives loans and grants to the state governments, statutory housing boards, employers and registered co-operative societies of industrial workers. Until the end of 1962, the loans and subsidies sanctioned under the Subsidized Industrial Housing Scheme came to Rs 27·25 crores and Rs 24·55 crores respectively. About 1,25,000 houses were reported to have been completed up to the end of September 1962. A provision of Rs 45 crores for constructing 128,000 tenements under the scheme of subsidized industrial housing was made in the Second Five-Year Plan.[467] By the end of the Second Plan the construction of about 1,40,000 tenements costing Rs 45 crores had been approved. About 1,00,000 tenements had been completed.

A brief reference may be made to the position of co-operative housing in various states, the information provided relating generally to 1961-2. In Madras, the co-operative housing societies fall under five categories, namely, ordinary co-operative building societies; co-operative house-building societies; co-operative house construction societies; co-

operative townships; and co-operative tenancy societies. The ordinary building society advances long-term loans to its members for constructing houses on sites owned or acquired by them through the society. The house belongs to the member. The house-building society works on the same system but with the difference that it acquires sites for forming a co-operative colony and engages itself in the construction of houses, on behalf of its members, as their agents. The house construction society is formed on the system of co-partnership tenancy. It acquires sites, constructs houses and lets them on rent to members on the hire-purchase system, under which the member becomes the owner of the house after he has paid the instalments over a period of twenty years. The distinguishing feature of a co-operative township is that, apart from acquiring lands and dividing them into house sites for setting up colonies, it advances loans to members for construction of houses and provides for and maintains civic amenities. The function of the co-operative tenancy society is to construct houses and let them out on rent to members. The ownership of the houses vests permanently with the society. There were 663 primary housing societies of all types with 56,916 members in 1961–2. These societies constructed 536 independent houses valued at Rs 3·86 crores and 649 tenements valued at Rs 32·45 lakhs. In addition, the members constructed 785 houses. The total borrowings of the societies came to Rs 5·73 crores out of which a sum of Rs 5·29 crores represented government loans. The largest group consisted of ordinary building societies. The most prominent of the house construction societies is the Madras Co-operative House Construction Society. There was only one co-operative township, namely the Katpadi Co-operative Township, which has been given financial assistance by the government. Madras has four co-operative tenancy housing societies.

Other aspects of the commendable lead of Madras in the sphere of co-operative housing relate to rural housing and the undertaking of the Government of India's schemes for housing people with low incomes. There were 209 rural

housing societies in 1959–60. The societies grant long-term loans to members up to a maximum of Rs 5,000 in each case and also assist them in acquiring sites and getting building materials. The societies derive their funds from the government. Housing co-operative societies in Madras have taken advantage of the Government of India's low-income-group housing scheme and the industrial housing scheme. Reference may also be made to the Madras University Hostel Construction Co-operative Society formed for helping colleges affiliated to the Madras University to construct hostels for their students. This society gets its finance from the Madras University. Another feature of co-operative housing in Madras is the existence of co-operative house mortgage banks. Except for one bank, the rest were financed by the South India Co-operative Insurance Society until the nationalization of life insurance in India in 1956.[468] There were 26 primary house mortgage banks in 1959–60. During the year, 12 banks borrowed Rs 3·91 lakhs from the Co-operative Central House Mortgage Bank.

Another state where co-operative housing has recorded progress is Maharashtra where there were 2,271 primary housing societies with 104,541 members in 1961–2. The total borrowings of these societies stood at Rs 15·34 crores out of which Rs 2·18 crores were from the government and Rs 2·09 crores from central financing agencies. The societies constructed 1,846 independent houses and 5,702 tenements. A special feature of co-operative housing in Maharashtra is the scheme for the backward classes. Financial assistance as well as certain concessions are given to families belonging to the backward classes to build their houses through co-operative housing societies, etc. The government gives loans and subsidies to these societies up to 75 per cent of the estimated cost of the houses, which is reckoned as ranging between Rs 800 and Rs 4,000, depending upon the area in which the societies are located. The government loan is free of interest and is repayable in 25 annual instalments. If a member of a society is engaged in agricultural pursuits, he can get an additional loan not

exceeding 60 per cent of the cost of a shed and barn estimated at not more than Rs 100. The societies are also eligible for subsidies to meet their cost of management, etc. Government lands are allotted free of cost to the societies and if such lands are not available, a government subsidy equal to the cost of acquisition or purchase of private lands is available. Since August 1953 these concessions have been generally available only to societies of scheduled castes, scheduled tribes and ex-criminal tribes.

A special scheme for housing persons who suffered in the floods in Ahmednagar District in 1948 provided facilities by way of government loans and subsidies to housing societies established for these people. To assist displaced persons from Pakistan to construct their houses, a special co-operative housing scheme was sanctioned by the government in 1949, with financial and other facilities available from it. Co-operative societies have also been started in Maharashtra under the subsidized industrial housing scheme and the low-income-group housing scheme of the Government of India.

There are two federations of primary housing societies, one in Bombay and the other at Rahuri in the Ahmednagar District, which assist and guide their member societies in their activities. There is, besides, the Bombay Co-operative Housing Finance Society which functions as a central financing agency for the housing societies in the state. At the end of June 1956 it had a share capital of Rs 67·5 lakhs, of which Rs 33·7 lakhs were derived from the government. Up to the end of June 1956 the society had disbursed Rs 65·3 lakhs to 39 co-operative housing societies. With the finance obtained from it, 1,167 housing tenements were constructed. The society earned a net profit of Rs 3·3 lakhs in 1955–6.[469] In 1961–2, the state housing society advanced Rs 1·55 crores as loans.

In some other states too co-operative housing has been in evidence. The table on page 217 shows the position in certain states during 1961–2.

The developments in connexion with co-operative housing societies hold some important lessons. One is that, where

State	No. of Primary Housing Societies	No. of Independent Houses Constructed by Societies	No. of Independent Houses Constructed by Members	No. of Tenements Constructed by Societies
Andhra Pradesh	422	—	464	—
Bihar	40	90	132	—
Gujarat	1,917	1,323	2,389	4,220
Mysore	399	382	2,384	118
Orissa	407	—	1,337	—
Punjab	277	137	176	—
Rajasthan	174	—	201	13
Uttar Pradesh	534	—	154	—
West Bengal	135	3	488	—

the demand is not self-initiated, the beneficiaries' reluctance may handicap results, as in the Othachakkars' Co-operative Building Society of Coimbatore, where, though many had been dispossessed by slum clearance, an inadequate number came forward to take advantage of the housing scheme on remarkably attractive terms.[470] Another is that, without good management and the right attitude on the part of members, the best of co-operative schemes can result disappointingly, as in the case of the Model Town Society at Lahore, now in Pakistan, a very ambitious project lavishly subsidized by the Punjab Government and with local notables among its defaulting members, which was a worry to the Registrar for years.[471]

Another lesson is the need of housing co-operatives for informed and intelligent guidance, taught by the experience of a house-building society in Amritsar, which between 1939 and 1944 completed twenty houses, only to have three demolished by the municipality as they had been built without getting the plans approved.[472]

A fourth and very practical lesson is that offered by the experience of Travancore (now part of Kerala), where

well-constructed houses were built for fisherfolk on the Quilon coast, only to have their rents beyond the fishermen's means.[472]

A fifth lesson is that provided by instances where a few unscrupulous persons have promoted housing societies for their selfish ends, taking advantage of the urban dweller's pressing need for a house. Such ventures have eventually come to grief and the members have suffered. This indicates the need for registering housing societies after a thorough scrutiny of the credentials of the promoters.

It goes without saying that government-sponsored housing projects for the lower-income groups should be in every case co-operatively organized; otherwise, not only will an excellent opportunity for co-operative education be lost, but co-operative housing societies will almost inevitably suffer from the government projects' priorities in the matter of building materials.

A poor country must cut its coat according to its cloth. If the rural housing goal is set impossibly high, the possible in the way of improvement may not be attempted. Even the minimum requirement that no human being shall be without shelter calls for a condition which cannot be claimed to exist today. The pavement dwellers in the cities are hardly worse off than the rural people condemned by their poverty and by the housing shortage to huts of crude thatch beside which the common mud huts with thatched roofs represent luxury. Let the people be given plans for mud huts sufficiently commodious to enable comfortable and decent living, and a relatively small outlay will be required for their construction. Meantime the production of the compressed mud substitutes for bricks which had been found satisfactory in Punjab[473] before partition can be taught and encouraged, so that gradually *pukka* village dwellings may replace the *kachcha* ones now so general. But let us 'make haste slowly'.

Even the improvement of existing houses, as the Saraiya Committee very practically suggested, will be an advance on present conditions, and it calculated that with proper guidance and the contribution of the labour of the farmer

in his off season, and that of his family, even a new house can be constructed with local materials at a cost as low as Rs 150.[473] The Fifteenth Conference of Registrars felt that rural housing had not received the attention it deserved and recommended at least one experimental rural housing society for each state, with government help for land and priorities. The Third Five-Year Plan comments that the scale of the rural housing problem is so vast that provision of additional funds by itself can produce only a small impact. The Plan makes a note of the point that the problem is mainly one of creating a widespread desire for better living, evolving practical methods for improving the village environment and building better houses at a relatively small cost based mainly on co-operative self-help, community effort and contribution, and the use of local building materials.

It may be mentioned incidentally that housing projects offer as good an opportunity as better-living societies proper for the inculcation, especially where the beneficiaries are of the poorer class, of the fundamentals of hygienic and sanitary living. Otherwise, as has happened sometimes in the West, objectionable habits may only be transplanted, to flourish in the new environment. 'Beware,' wrote Thoreau, 'of all enterprises that require new clothes, and not rather a new wearer of clothes.'

A general and rather pressing problem experienced by co-operative housing societies is dearth of adequate long-term finance. An apex co-operative housing society might be of some help in solving it, but the government will have to assist such an organization with funds if it is to be of use to its member societies.

The housing shortage bears only less hardly upon the upper middle class than on those poorer, and assistance with counsel and loans at bank rate may well be given to its members in solving their housing problem, but the question arises of the appropriateness of outright assistance at public expense to individuals of this economic class. The same applies to the Katpadi Co-operative Township in Madras which aimed at nothing less than forming a new

township and discharging all the functions of a municipality, providing modern amenities such as metalled roads, underground drainage, electric lighting, etc.

Recently, the Working Group on Housing Co-operatives set up by the Government of India, has recommended that the state governments may ear-mark 20 to 25 per cent of the funds allocated under the housing scheme for the co-operative sector. This percentage may be raised to 40 per cent in states where co-operative housing has made good progress. The Group has also recommended that housing co-operatives should be given priority in the allotment of land owned or acquired by the state governments under the land acquisition and development scheme or any other housing scheme. Further, the Group has suggested that state governments should give separate quotas of cement and other building materials for housing co-operatives.

Better-Living Societies

The improvement of sanitation and hygiene is one of the several objects of the better-living societies so-called. The others include the reform of bad customs prevalent amongst the members; the inculcation of thrift and the prevention of waste by discouraging extravagant ceremonial expenditure, etc.; the promotion of education and wholesome recreation; the cultivation of the sense of self-respect and resistance to corruption; the encouragement of self-help and mutual help; and the improvement of the physical, moral and spiritual condition of members in a variety of ways.

Of the 7,171 societies of this type in 1944–5, according to the Reserve Bank's table, Uttar Pradesh had 3,955, Punjab 2,163 and Bengal 502 (the data for these two states relating to those before partition), the few hundred remaining being divided among Kashmir, Bombay, Madras and Bihar.[474] Various lines of village improvement, such as sanitation, village road construction, well-digging, tank clearance and the putting in of ventilators in ill-ventilated homes had been taken up by such societies,[475] notably in

Punjab, where, as in Bengal, the labour services which the members render are on a free and voluntary basis.[476]

Better-living societies in Uttar Pradesh in 1945–6 included ten central societies. Remarkable results were claimed from their village-aid schemes. In 608 societies better farming methods were enforced under penalty of fines. Improved implements had been introduced, wells constructed and sanitary measures put into effect.[365]

The Banking Enquiry Committee in Uttar Pradesh went so far as to recommend the formation of such societies as the entering wedge of co-operation in any village, holding that a credit society should not be started until prospective members had shown their fitness to work in co-operation in managing a society for rural reconstruction or better living.

The fundamental aim of rural reconstruction efforts has been defined as the creation among the masses of a will to live better.[477] Better-living societies once organized and working well have great potentialities for arousing that will. A veteran co-operative official like Mr F. B. Wace, however, did not consider the better-living society suitable as the pioneer and nuclear co-operative undertaking. The enthusiasm of the members, he declares, is a condition of success and 'the simpler and more urgent the need which the society is designed to meet the more likely is it that the members will retain their interest and make a success of it'. Upon that success in one limited objective other co-operative undertakings can be founded with hope of doing well.[401] There is unfortunately truth in his implication that the need for improvement of one's self and one's customs is not felt strongly enough by the average individual to arouse very great enthusiasm. Enthusiasm apart, Mr Wace believed (perhaps provided the way had been paved by a successful society of another type) that better-living societies were 'the best agency for the expansion and enforcement of permanent measures for rural reconstruction'.[478]

One better-living society in undivided Punjab was reported to have reduced the cost of marriage from Rs 500 to Rs 70 for a boy's family and from Rs 800 to Rs 300 for

a girl's family. The society fixed the number of guests that might accompany the bridegroom to the bride's home, and the old custom of displaying the bride's presents had been abolished.[479] A better-living society for the whole Audich Brahmin community in the old Baroda State was reported to have saved Rs 94,560 by 1930 by reducing ceremonial expenditure.[480] Reduction of expenditures was mentioned also by the Coorg Registrar in his 1946–7 report as having been brought about by a better-living society among Balavalikar Brahmins, but the better-living societies in Coorg were being amalgamated with credit societies.[481]

Better-living societies were reported to be doing good work in Assam.[482] But this was over twenty years ago. Recent data show that even the two better-living societies existing in Assam were not functioning.

In Bihar the village welfare societies in backward areas were under the supervisors maintained by the Divisional Co-operative Federation, under a government subsidy.[483] The better-living societies in Uttar Pradesh totalled 3,191 at the primary level in 1959–60. It is reported that these societies are being converted into multipurpose societies. Even in Punjab which before partition had to its credit a number of better-living societies which were reported to have done good work, the better-living societies which numbered 37 with 1,473 members in 1959–60 were dormant, their work having been taken up by local panchayats. In other states too which have better-living societies, there is nothing worth mentioning about their activities, the societies generally being inactive.

Along with better-living societies, health co-operatives may be referred to. Here again there is nothing significant to report. But we may refer to stray instances of such societies having rendered useful service. For example, the health co-operative society at Muzaffarpur in Bihar is said to have done good work by holding annual camps for training people in sanitation, first aid and physical culture. Maharashtra's 5 medical aid societies engaged 6 doctors and treated 486 patients in 1959–60. Madras had 5 medical aid societies with 1,305 members. Apart from government

subsidies, the societies also collect donations. Members get free consultation at the society's dispensary. The 120 medical aid and public health societies in Punjab have a membership of about 15,000. They receive grants from the government and collect donations. Bengal before partition had anti-malaria societies which did yeoman service in the checking of the scourge in that state by draining swamps, treating tanks, clearing jungles, distributing quinine, etc. Bengal after partition, that is West Bengal, has 429 health and medical societies which engage themselves in the digging of wells, the supply of quinine and other medicines and the provision of arrangements for medical attendance at concessional rates for the benefit of their members. Health services such as street cleaning and village sanitation are performed by the 69 better-living societies in Orissa, which raise subscriptions from villages and receive government grants.

Pre-paid group medicine and even hospitals on a co-operative basis have a great future in India though their benefits cannot possibly be extended to all without state subsidies. The Saraiya Committee recognized the limitations of voluntary effort in this field, where most of the people are so poor. It recommended that, pending the organization by the state of medical services on a comprehensive scale, government aid should be given to co-operative health projects, up to 75 per cent of the working costs in rural areas.[484] The Saraiya Committee also suggested that life insurance companies, in their own interest, might well start health co-operatives among their policy-holders by offering rebates on insurance premiums or direct medical assistance.[485]

Education is another activity which falls in the better-living field and has been attempted to some extent by better-living societies as well as by societies specifically for education. Maharashtra had 31 co-operative educational societies in 1959–60 with 7,550 members. They conducted 26 schools in rural areas, besides running libraries, free reading rooms and classes for adult education. Their activities are noteworthy in the East Khandesh District. Madras had

two educational societies, engaged in providing loans to deserving students and sale of literature on adult education. One of the two societies appears to be inactive. A few education societies also exist in Gujarat, Punjab, Uttar Pradesh and West Bengal.

Reference has been made to the Indian villager's proneness to litigation. In some cases, the requirement has been written into the by-laws of village societies that members must submit their disputes to arbitration by the managing committee, under penalty of fine.[486]

Special arbitration societies to settle disputes had been formed in pre-partition Punjab, Madras and elsewhere. The Committee on Co-operation in Madras rather grudgingly suggested experimental arbitration societies in selected small and self-contained villages where modern education had not penetrated and the villagers were inclined to obey the elders.[487] Such societies may be expected to decline as the functions of the village panchayats are revived. These and the debt conciliation boards were reported to have reduced the work and importance of arbitration societies in undivided Punjab by 1943–4.[475] After partition, Punjab had only 14 arbitration societies. Nothing noteworthy about their activities has been reported.

Thrift efforts as distinct from credit also fit in well with the better-living societies proper, but as these do not normally accept deposits the co-operation of a credit society might be secured for the savings, for example, for specific anticipated expenditures which the Gadgil Committee recommended.[43] Thrift societies for children in undivided Punjab numbered twelve in 1945–6 and were reported to be doing useful work in inculcating habits of thrift.[488] Punjab after partition had more than 700 thrift and savings co-operative societies formed mainly for government and quasi-government institutions. Loans are made in relation to the salary and the savings of the member.

Co-operative Tribunals for the hearing of appeals from the decision of arbitrators of the department have been provided in Bombay. The President of the Tribunal must be a retired High Court or District Judge or a former

Registrar of Co-operative Societies and the other two members, non-officials closely associated with the co-operative movement, one of whom must be a lawyer of not less than ten years' standing. The members are to hold office ordinarily for five years. The Committee on Co-operative Law, reporting in 1957, recommended that, as in Bombay, every state should constitute a Tribunal to hear appeals against orders passed in arbitration proceedings.

Societies for Women

Co-operation has a vast opportunity, until recently largely neglected, in connexion with the women of India and Pakistan. The co-operative societies have always been open to women. The erstwhile state of Cochin had in 1946–7 as many as 4,295 women members of primary societies out of the total of 66,894 members.[489] But difficulties in connexion with the security which women can offer, the custody of funds, etc., have been deterrents in connexion with credit societies, which so long held the centre of the stage. There have been exceptions, women having served on managing committees of mixed societies and even as office-bearers, but these have been comparatively rare. With the diversion of interest to a greater extent to non-credit activities, the way is open to the intensification of the work among women in the regions where it has made some progress, and to starting it elsewhere.

The case for bringing women into the movement has been convincingly put by the late Mr F. L. Brayne, I.C.S., former Registrar in Punjab, a state which has pioneered in several useful lines and shared honours with Madras for having done most for the women's side of the co-operative movement. Writing on 'Women and Indian Villages' in *The Aryan Path* for June 1946, he declared: 'The home is the centre of the nation and the woman is the centre of the home.' Ignoring women in the attempt to develop India, he warned, could only lead to failure and frustration. With one wheel of the chariot of progress firmly locked, the chariot could only go round in circles. Better farming and higher income, he declared, were only means

to the end of better and happier homes. The apathy of the villager, so often complained of, would be dispelled by putting across to him the ideal of a pleasant home and healthy, happy children. Well-planned, well-ventilated, smokeless homes, well run, 'hay-boxes to take the place of dung-cake fires, flowers in the little compounds, paved and drained streets, improved wells', and adequate sanitary arrangements: are these beyond the possibilities for the masses of the country?

Many of the changes indispensable to healthful and happy living on a higher standard call for radical readjustments in habits and customs which time and superstition have invested with a certain sanctity. That India has had no monopoly on unhygienic habits, and that 'Western' and 'sanitary' living habits are not always synonymous was made amply plain in *Our Towns: A Close-up*, published during the last war by the Women's Group on Public Welfare in England. Sight must not be lost, also, of the fact that not a few of the inhibitions and taboos for which Westerners can see no justification are based on India's traditional wisdom and embody sound principles of magnetic cleanliness* of which the modern enthusiasts for sanitation know nothing and for which they care less. Indian village welfare workers not completely dazzled by the glamour of Western ways of life should be able to distinguish between the customs worth retaining and those which indubitably require change. In the millions of village women in India and Pakistan, condemned in recent centuries to illiteracy and neglect, ignorance has so strengthened the conservatism natural to womankind that the backing of public opinion is needed to embolden them to make the changes which are really necessary; the value of co-operative societies for mutual encouragement is in their case particularly great.

Medical and maternity aid are vitally necessary, but they are only part of the need. Mr Brayne proposed one woman guide for every 1,000 homes, to teach better living standards. This is obviously beyond present possibilities, due, among several factors, to the lack of trained women, but women

* Laws of Manu, I. 107-10; IV. 145-6; 175, *et passim*.

can and must be trained in numbers for this work. The Saraiya Committee suggested the utilization by the Co-operative Departments of the women welfare workers known as *Sevadanis*, who during the war were visiting the homes of serving soldiers, inculcating better living standards and organizing child welfare and simple medical relief, though these were obviously not numerous enough to meet the full need.

Mr Brayne envisaged, besides a network of domestic training schools, 'touring teams of trained women, spending a month in one village to teach the women the elements of home work and then going on to another village, leaving behind them a Co-operative Women's Better Homes Society to consolidate and continue the work'.[491] I do not agree with his proposal for a separate co-operative movement 'staffed with women from provincial Registrar to village workers', but certainly women must have more of a voice in official as well as non-official co-operative councils.[358]

The Women's Co-operative Home Industries Society of Nagpur was named by the Central Provinces (Madhya Pradesh) Registrar in his report for 1945–6 as one of the most important industrial associations in the province.[358] The Registrar later reported in 1956 that the two women's co-operatives in Madhya Pradesh were not flourishing owing to causes such as dearth of capital and paucity of good honorary workers. There were 27 women's co-operative societies in Madhya Pradesh in 1959–60 with 1,104 members.

Shri Janardan Madan in his Address of Welcome at the Nineteenth Bombay Provincial Co-operative Conference on 11 April 1948 expressed the conviction that women workers alone could create the conditions to make the movement a formidable force and to carry its beneficent results to the homes of thousands of poor families.[492]

The women's section of that conference, largely attended by men as well as women, made co-operative history. One of its resolutions called for the appointment of a woman Assistant Registrar to popularize the movement among women.[493] This was in line with the Saraiya Committee's

recommendation that each province appoint at least one woman Assistant Registrar or Special Officer to organize and supervise women's societies, and that when the number of such societies increased there should be 'at least one woman welfare worker and the requisite subordinate staff' for every twenty-five societies.[494]

Punjab leads other states in the sphere of women's co-operative societies. There is a special staff for running these societies. The Registrar of undivided Punjab mentioned a difficulty which other states have no doubt experienced—the reluctance of relatives 'otherwise apparently sane and progressive' to agree to their womenfolk taking up work as Sub-Inspectresses. Village touring was almost impossible for them in the early thirties[495]—a difficulty which education and the gradual advance of women in other lines of activity may be expected to overcome in course of time.

There were 798 women's co-operative societies in Punjab in 1959–60, with 24,956 members and a paid-up share capital of Rs 7·36 lakhs. Out of these societies, a profit of Rs 0·31 lakh was made by 605 societies. The most important group of women's societies in Punjab consisted of thrift societies, which totalled 525.

The development of cottage industries among women has been stressed in Madras, as in Andhra Pradesh and Maharashtra. Madras in 1946–7 had 43 women's cottage industries societies with 3,515 members which sold Rs 1,67,808 worth of goods during the year.[496] These societies provided raw materials, such as cloth, thread, etc., and took them back as finished products, ready-made garments, embroidery, etc., paying the women wages. It was reported that some members had earned Rs 30 to Rs 40 a month in such work in their leisure hours. The Registrar emphasized the need for liberal state aid for such societies in the first years. Three were in a position by 1946–7 to dispense with the annual subsidies. These cottage industries were supervised by a woman Special Officer appointed by the government.[372] In 1959–60 Madras had 41 women's societies, with a total membership of 5,309. The value of goods produced amounted to Rs 2·11 lakhs.

The Madras Committee on Co-operation emphasized the responsibility of upper-middle and middle class women for propaganda and for spreading the theory and practice of co-operation among the poorer women in the towns and villages, teaching them home industries and arts, doing maternity and child welfare work, starting recreation clubs and promoting thrift.[497] The Committee on Co-operation in Madras (1955–6) was of the view that cottage industrial societies for women should be given liberal state help by way of subsidies for the maintenance of staff, equipment, overhead charges, etc.[498]

There are about three women's industrial societies in the city of Bombay, run chiefly by middle-class women for their poorer sisters. Outstanding among women's societies in the city are the Gujarati Stri Sahakari Mandal, a long-established co-operative store, and the Sarvodaya Women's Industrial Co-operative Society, started in August 1944, which in 1947 added a grain shop to its industrial activities. Its women members are reported to have learned skill especially in leather work and printing. Dyeing, tailoring, embroidery and the making of eatables are among its other lines. Especially important in connexion with this society is the effort to bring to its members a wider outlook. There are weekly lectures and study classes to increase general knowledge, acquaintance with political problems, etc.

It would be well if the women's societies generally, as well as others, could plan some activities to enrich their members' lives culturally as well as economically, something, perhaps, on the lines of what is being attempted by the Indian Institute of World Culture in Basavangudi, Bangalore, to bring an idea of some of the best things in world culture to people of average mentality and education. Something along this line, given the recognition of the cultural need and the will to meet it, might be developed in connexion with Mr F. L. Brayne's suggestion of 'a Co-operative Women's Institute, touring lecturers, cinemas and magic lanterns'.[491]

Successful producers' co-operation for women demansd careful planning, not only the training of the society members

but also the prior determination of the lines for which a ready market can be found.[499] Besides societies for women in rural areas, there had also to be encouraged societies of women artisans in urban areas, many of whom were exploited by their employers, and societies by which middle-class women were enabled to supplement their family income by work for a few hours daily in producing food, sweets, etc., either in a common workshop or in their own homes, or by getting contracts for stitching uniforms, etc.

A variant on the usual thrift pattern and even on orthodox co-operation is the 'chit' system in Madras described by Dewan Bahadur K. D. Mudaliar in 1938, to which he reported the women members completely loyal. Under this, ten or twenty women who desired to have money or needed it for some purpose, subscribed to a 'chit', at the rate of Rs 5 or more a month for twenty months or more. The amounts were faithfully brought to the monthly meeting and the amount so subscribed was lent to one member of the 'chit' by lot or by auction,[501] a system which has its obvious drawbacks but seems at least spontaneous and an encouragement to thrift and a sense of responsibility and mutual service.

Societies for the Depressed Classes

In so far as the special societies for India's untouchables—called for euphony's sake 'Harijans' or 'Scheduled' or 'Depressed' Classes—are necessary because social prejudice bars them from general societies, they represent a concession to an unwholesome separative tendency that should not be encouraged. Where, however, separate treatment is necessary because of the special attention needed by the group, because of illiteracy, unemployment and poverty beyond the average, special societies are commendable as temporary expedients, provided the aim of raising them to the point where they can be absorbed in the main stream of co-operative effort is kept constantly in mind. The Indian Constitution outlaws untouchability.

The Mysore Committee in 1936 favoured the inclusion of even the Adikarnatakas in ordinary societies, while accept-

ing separate societies where these people were not freely admitted to ordinary societies.[502]

If the Co-operative Enquiry Committee in Travancore (1934) was not unduly optimistic in the colonization scheme which it urged for the depressed classes there, there would seem to be no excuse for postponing planning on a large scale for the amelioration of their situation. It drew an idyllic picture of a small plot and a cottage, 2 cows and 25 coconut trees for each family for only Rs 2 a month for fifteen years.[503] The cost would naturally vary from region to region, but continued acquiescence in the misery of so large a group should be unthinkable in free countries concerned for social justice, as India has shown herself to be. Co-operative effort is admittedly very difficult in connexion with societies of depressed class and aboriginal members, but 'they that be whole need not a physician, but they that are sick'.

The Madras Committee on Co-operation was doubtless right in describing the conditions in the scheduled class societies as very bad, due to the widespread poverty, the members' relation to landlord creditors, amounting virtually to permanent servitude, and their possessing hardly any saving or repaying power. The liquidation in 1939 of the Madras Christian Co-operative Central Bank, which had financed these societies, had underwritten the lesson of the risk.[505]

But it would be premature to admit the defeat of co-operation on this front, as the Committee counselled in effect in recommending the turning over of such societies to the Labour Department, already concerned with socio-economic work among them, on the ground that 'the officers of the Co-operative Department cannot give that constant and exclusive attention which the work among the scheduled classes requires'.[506] This seems an untenable position, when so many officers of the department are on loan to societies of other types. There were at the time twenty-one scheduled class societies for joint cultivation.[507] The Brindavanam Better Living Society for the scheduled castes in Madras City was cited by the Saraiya Committee as having

performed useful service, constructing huts with Labour Department assistance and improving the sanitation of their locality.[476] Madras had 1,296 societies for Harijans and other backward communities at the end of June 1960, with a membership of 76,968. The value of members' finished goods sold through the societies during the year amounted to Rs 0·29 lakh. The government has given various concessions to these societies such as grants for working expenses, exemption from registration fees, etc. The formation of separate societies for Harijans and other backward classes is not being encouraged now, a policy endorsed by the Committee on Co-operation of 1955–6. That Committee was also of the view that existing societies for Harijans should be wound up unless they were working successfully because it felt that otherwise the Harijans would not get facilities for credit easily or adequately. The Committee was against the suggestion that the government should finance societies for Harijans since this would encourage the demand for separate societies. Such financing, added the Committee, should continue to be done by central banks.

The old Bombay State had societies of conservancy workers[508] among those whom the prevailing false standards of the dignity of labour relegate to the lowest social rank. While this artificial stratification of society is to be deplored and must finally be overcome, the existence of a group which considers no work beneath them should be an asset in connexion with the important problem of the conversion of village refuse into compost. The estimate once made that 560 million tons of farmyard manure are burnt annually as fuel, calculated to be enough for the manure requirements of over 60 per cent of the existing cultivated area,[509] points to the urgency of this reform.

The Saraiya Committee suggested investigating the possibilities of co-operative societies for the most backward classes who dispose of dead animals for the recovery of their hides, not only that their members' standard of living might be improved, but also that the best use might be made of the by-product for manure, etc.[510]

Some credit societies for depressed class members have been referred to. Subsidies for the clerical staff of depressed class societies were common, being reported, for example, by Bengal[511] as well as by Bombay and Orissa.

The Madras Committee on Co-operation found that little had been done by the ninety-six societies to improve the condition of the hill tribes, except in the Nilgiris.[512] The organization of co-operative work among such aboriginal people, the *adivasis*, numbering nearly three crores in all, was taken up in earnest in the old Bombay State. In 1947 co-operative societies of *adivasis* were formed in nearly a dozen centres for timber cutting and charcoal manufacture. Liberal government assistance was extended to them and it was announced later in July 1948 that co-operative model colonies were planned for the landless Katkaris, backward even among the *adivasis*. The Agricultural Department was to prepare a scheme of mixed farming, including dairy and poultry farming, cattle breeding and scientific grazing. Planned townships, schools and a dispensary were envisaged in the plans. Bombay's housing project in the Surat District for the *halpatis* or agricultural labourers and recent developments regarding forest labourers' co-operatives have already been mentioned. There is a special scheme for the development of co-operation among the people in the backward areas of the Panchmahals and Thana Districts of Bombay, initiated in 1947–8 with government aid for meeting a third of the cost of staff of societies unable to declare a dividend of 5 per cent or more. These societies are mostly agricultural credit and multipurpose societies. Co-operative farming societies for backward classes get certain special concessions from the government. Further, there is a Sarvodaya Scheme intended for the relatively backward areas of each district in Maharashtra. The activities of these centres include running of primary schools and hostels, agricultural demonstration farms and medical centres. Agricultural credit and multipurpose societies for backward classes have also been assisted by the government to open grain depots.

Article 46 of the Constitution of India lays down as one of the Directive Principles of state policy that the state shall promote with special care the educational and economic interests of the weaker sections of the people, and, in particular, of the Scheduled Castes and Scheduled Tribes, and shall protect them from social injustice and all forms of exploitation. For programmes relating to the welfare of backward classes, a total outlay of Rs 79 crores was incurred in the Second Five-Year Plan as compared with an outlay of Rs 30 crores in the First Plan. The Third Plan has made a provision of Rs 114 crores for programmes relating to the welfare of the backward classes. These programmes aim at giving priority to the economic rehabilitation of persons engaged in shifting cultivation, working of forests through co-operatives, and formation of multipurpose co-operative societies to meet the credit and marketing needs of the members.

The question of the role of co-operative agencies in promoting and financing schemes for the tribal and similar classes of people has to be considered in this context. Broadly, it seems very inadvisable to leave this work of promotion and financing to co-operative societies, at least in the initial stages of the programmes for the promotion of the welfare of the tribal and other classes. Such financing will be risky and will throw an undue burden on the co-operative agencies. The temptation on the part of the government to set up co-operatives in such contexts, regardless of the genuinely co-operative character of such institutions, has also to be guarded against. We may refer in this context to the conclusion arrived at by the Reserve Bank's Standing Advisory Committee on Agricultural Credit at its seventh meeting held in October 1957:

> The responsibility for promoting and financing schemes in relation to the backward sections of the community, involving various risks, should be mainly that of the government. If co-operatives were entrusted with providing financial assistance in connexion with such schemes, the responsibility for losses, if any, should be that of government. It was stressed that working capital for co-operative institutions specially set up to meet the needs of the tribal population should be available from the Government of India, Ministry of Home Affairs.

Miscellaneous Types of Societies

There are many other types of co-operative effort, some of them of considerable importance, which may be briefly mentioned. Prominent numerically among these are the palmyra and coconut *jaggery* manufacture co-operative societies formed in Madras and Andhra Pradesh to provide alternative employment for former toddy-tappers, thrown out of employment by the enforcement of prohibition. A few societies of this type are in existence in Mysore and Orissa. There were 973 *jaggery* co-operatives in Andhra Pradesh in 1959–60, with 86,651 members. The value of their production and sales in 1959–60 came to Rs 39·41 lakhs and Rs 41·13 lakhs. In 1959 an apex society was formed to co-ordinate the work of the primary societies. In Madras, at the end of March 1960, there were 1,426 palm-jaggery societies, four district federations and one apex federation. The societies had a membership of 188,000. The sales made by the primary societies through the district and state federations came to Rs 41·84 lakhs.

Kerala has a few co-operative cafes and lime-shell co-operative societies to protect their diver members from exploitation by middlemen. The members of these lime-shell societies have been given the right of collection of white lime-shells from the backwaters.

Maharashtra has a few dam construction societies and electric supply societies. Co-operative societies for the supply of electricity cannot be expected to play in the near future the important role that they have played in the United States and other foreign countries. As the power and irrigation projects spread, the number of such societies may well increase.

MULTIPURPOSE SOCIETIES

There can be no question of the value of a concerted attack upon a many-faceted problem. Reluctance to broaden the co-operative undertaking until the credit or perhaps the credit and better-living functions are soundly established

is like insisting on a man's ability to balance on a one-legged or a two-legged stool before he is given one with three or four legs. A multipurpose society has been called 'an enthusiast's short-cut'. Whether, however, a separate primary society should be formed for each major line of co-operative activity, or a multipurpose society should combine the several functions under a single direction, has been debated for several years, during which time the multipurpose society has been growing steadily in favour.

The Reserve Bank of India once strongly recommended 'a network of multipurpose societies which would undertake all activities affecting the daily life and business of the agriculturists and artisans, viz. financing of crop production, supply of the needs of production such as seeds, implements and consumer goods, arranging for the organized marketing of the crop, encouraging subsidiary occupations, etc.', as well as serving as a social organization to promote better living and improvement in village conditions.[514] But this view seems to have undergone a change in recent years.

The Rayalaseema Co-operative Enquiry Committee in Madras (1946) also came out strongly for such multipurpose societies.[515]

The 'success' stories in the Reserve Bank's old Bulletins on individual multipurpose societies are alluring, no doubt, though the history of co-operation in India does not encourage hope of such triumphal progress as the usual pattern.

It is evident that a society which touches its members' lives at as many as possible of the points on which they need help is likely to command greater enthusiasm and interest and also, if well run, to do more to ameliorate their condition than a single-purpose society can accomplish alone. The number of members qualified to serve efficiently on the managing committee or as office-bearers of many village societies is necessarily limited, and interlocking directorates are therefore often inevitable between single-purpose societies of different types. In such cases, probably,

a single society with different functions would be less burdensome to the officers and the committee.

On the other hand, it has been pointed out, the complexity of the operations of a multipurpose society demands a higher type of business ability than many villages can furnish. It may also rule out the general participation in the society's working which is so desirable for strengthening the co-operative spirit, though the multipurpose society does naturally bring members into more frequent touch with the society. The necessarily complicated set-up of the multipurpose society also may obscure, until too late, unsatisfactory functioning in one or another line, and the winding up of the whole society might be forced by its failure in a particular important direction.

A minor argument against the multipurpose society is the interruption and possible harassment of its committee by visitations from representatives of this, that, and the other department, concerned with one or another phase of its work. Such visits are of course in the members' interest and in that of the close co-operation between departments which is so desirable, but too great a number of attempts at interference from different points of view must sometimes be trying, as Mr F. B. Wace has suggested.[516] As Dewan Bahadur Kaji put it in his lecture at Prague in September, 1948:

> Departmental administrations have often unfortunately the tendency towards separatism, each department desiring to evolve its own scheme and its own centres for the furtherance of its special activity for the villager. But the simple needs and simpler life of the villager demand a co-ordinated outlook and a comprehensive approach, so that the villager may not be viewed as a bundle of so many different needs but as a whole.

This objective might promise to be better served by the multipurpose society but for the major difficulty in connexion with the type of liability, already discussed.* The Co-operative Planning Committee apparently leaned to limited liability for the multipurpose society, though its stand was not quite unequivocally expressed.[517]

There is no possible objection to combining such functions

* See pp. 63 ff.

as those of a better-living society with those of a society of any other type, or even of marketing on a commission basis or of purchasing on indent. It can only result in the strengthening of the effort all round. Many rural credit societies have, indeed, taken up other activities, a fact perhaps reflected in the steady rise in management cost in Bombay between 1939–40 and 1945–6 from 2·3 to 4·4 per cent of working capital, which the Agricultural Credit Organization Committee considered excessive.[518] It is the adding of functions involving risk, such as marketing or purchase for sale, which cannot be approved for a society with unlimited liability.

Obviously also, the suggestion once made by the Reserve Bank that the multipurpose society be open to all villagers, 'so as to become in course of time an instrument of maximum efficiency for the revitalizing of the entire village life, in close collaboration with the village panchayat and the village school',[519] is impracticable as long as unlimited liability is retained.

Only where a society is able to raise the funds it requires on a limited liability basis can an all-purpose co-operative society be formed without too great risk. Otherwise, as already suggested, better a separate credit society, and a multipurpose society for all other purposes.

One caution to be observed in the taking on by a multipurpose society of added functions is to be sure that enthusiasm does not outrun the members' growth in ability to handle new lines of business. If the failure of co-operative credit societies left many members sceptical about the co-operative movement, the failure of a multipurpose society must have an even more disillusioning effect upon the standing of the movement, in the eyes of all concerned.

Uttar Pradesh, which accounts for a very large part of the total number of multipurpose societies in India, has about 43,000 such societies. But they are generally multipurpose only in name, most of the societies being in practice single-purpose societies. Multipurpose societies also exist in several states such as Maharashtra, Andhra Pradesh, Madras, Mysore and West Bengal. In general,

the multipurpose activities related to the distribution of controlled goods, especially during and after the war. With the removal of controls, even these activities declined in importance.

The Registrar's Conference of 1947 underwrote the Reserve Bank's recommendation in regard to multipurpose societies, with the addition of certain functions and the restriction of purchase and sale activity to an indent basis, except that the Registrar might sanction outright purchase for a sound society up to twice the paid-up share capital. The dangers of unlimited liability in this connexion would be obviated by the recommended reorganization of the primary credit society as a rural bank with limited liability.[520] It may be added that the large-sized credit society set up in various states under their co-operative development plans is primarily a credit society. This trend is based on the recognition that credit and trading activities cannot be safely combined in one institution, because failure in the trading sphere will affect the credit side, leading to losses and eventually to the inability of the society to give the loans for agricultural production for which it is primarily intended.

The Bombay Registrar in his report for 1946–7 praised the confident way in which most societies had tackled the additional lines of work, so that they had come to be regarded as 'a powerful agency capable of catering to the various economic needs of the rural folk'.[521] In retrospect, this appears to have been an excessively optimistic view. The Bombay Government, which has accepted the recommendation of its Agricultural Credit Organization Committee that the normal policy should be to organize multipurpose societies only, and to convert the existing village societies into multipurpose societies, is granting subsidies to multipurpose societies which are not more than three years old at a rate not exceeding Rs 150 a year per society or half the cost of management and propaganda, whichever is less.

There was prejudice against multipurpose societies in Punjab, but a number of such societies of a new type were

organized there from 1945–6, composed at first of ex-servicemen, from whom the proposal came, and their near relatives, though they were later thrown open to civilians. The maximum share-holding was restricted to Rs 500 and the dividend to 10 per cent, to discourage dividend hunting.

CHAPTER IV

CENTRAL SOCIETIES

SEVERAL types of unions, for marketing, purchase and sale, and for industrial and regional development, have been mentioned in the previous chapter in connexion with the types of co-operative activity in the primary societies which they are designed to foster. The other types are chiefly supervising unions, institutes and banking unions.

UNIONS

The importance of the question of supervision, of both rural and urban societies, has been discussed. The union of primary societies represents one attempted solution. The Maclagan Committee defined a union as

> a body of which the only members are the primary societies within a circle of a radius averaging generally about eight miles and at the deliberations of which each member society has a number of votes proportionate to the number of its own members.[1]

It described the union's duties as advising on the grant of loans to its constituent societies and supervising their working.[1]

It was an unfortunate day for the co-operative movement in India when, in 1915, that committee put itself on record as in favour of the system which had sprung up in Burma under which the union members all shared in the liability for a loan granted to any of them on the union's recommendation. The union's liability was limited; its society members' liability unlimited for their own borrowings but limited for the borrowings of affiliated societies, after the unlimited liability of the defaulting society was exhausted, to the amount represented by their own maximum borrowings during the twelve months immediately preceding the enforcement of the guarantee.[2]

The guarantee proved ineffective, as members' liability could be enforced only on liquidation of the society, and the proceeds of a forced sale often did not suffice to meet the society's own liabilities.[3] Also the sliding scale of responsibility based on extent of borrowing put the greatest liability on the weakest members of the union, who naturally had to borrow most.[4] The Burma Co-operative Committee pronounced the guarantee union a failure even in its main function of assessing the credit of affiliated societies.[5] That committee assigned to this mischievous plan a large share of the responsibility for the sorry pass to which co-operation had come in that then Indian province.[6]

Bombay, the United Provinces (Uttar Pradesh), Bihar and Orissa, the Central Provinces and Berar (Madhya Pradesh), as well as undivided Bengal, experimented with guarantee unions, but the feature of financial guarantee has been quite generally abandoned. Before the Bombay Supervision Committee's report was published in 1933, the guarantee unions in Bombay had been converted into supervising unions or dissolved, and fresh supervising unions registered.[7] There were two in Orissa in 1938, both moribund and awaiting cancellation of registration.[8]

In the light of experience with guaranteeing unions, it is not difficult to understand the Madras Co-operative Committee's opposition to the tentative proposal for a compulsory pool of the statutory reserve funds of primary societies in the area of each central bank and of the central bank itself, for the rehabilitation of weaker societies. It did, however, recommend, in view of the abnormal circumstances in 1939–40, a voluntary pool for the purpose, to be in operation for three to five years, explaining that it did not propose helping those societies whose losses or bad debts were due to fraud or gross mismanagement.[9]

Mr F. B. Wace in 1939 described Punjab's execution-of-awards unions as 'an excrescence on the co-operative movement, necessary because societies lacked the inclination and the knowledge to follow up awards through the civil courts'.[10] Such unions were paying as a rule a special bailiff to expedite their work. There were thirty-eight such

unions in Punjab in 1945–6, but only a few were doing any work, most of the work of execution falling on the Co-operative Department. There was no supervising union in post-partition Punjab, the work of supervision being done by the departmental staff.

Making unions of primary societies responsible for the function of supervision of their member societies is in line with co-operative principles and also with the insistence of the Maclagan Committee that supervision should devolve on the primary societies themselves.[11] The supervising union is still important. There have been such unions of 20 to 40 societies each in Madras since 1910, even before the Act of 1912 gave them any legal status. The Madras Co-operative Committee considered the ideal for a union to be about twenty-five affiliated primary societies in a radius of about seven miles, to ensure local knowledge, though many unions had a larger area. Their objects were to develop and supervise their affiliated societies and to recommend to the central bank the loan applications of their societies.[12] The supervisors appointed by the central bank work under the immediate control of the union. But they are paid by the central bank which possesses powers of substantial punishment. The funds of the supervising union consist mainly of affiliation fees and grants provided by central banks.

There were 1,079 supervising unions in India in 1961–2, as many as 300 being accounted for by Maharashtra, 189 by Gujarat, 145 by Mysore, 136 by Madras, and 125 by Andhra Pradesh. Taken in the aggregate, the role of supervising unions in ensuring effective arrangements for supervision has not been appreciable.

There has been some complaint in Madras of overlapping of control between the supervising unions and the central banks. The Co-operative Committee's recommendation that only representatives of A and B class societies be eligible for election to the governing body of a union[13] is good and should help to ensure high standards. The Committee on Co-operation in Madras, reporting in 1956, stated that supervising unions are necessary and should be continued,

adding that the reasons why these unions had not been able to discharge their functions effectively lay in the inadequate staff under their control and the absence of suitable personnel on their governing bodies.

The Travancore Co-operative Committee recommended that where the supervising unions were functioning satisfactorily they might be the sole recommending authority for loan applications. This would no doubt strengthen their sense of responsibility, but it could not relieve the central banks and other financing institutions from their obligation of careful scrutiny of loan applications.[14] Kerala had 56 supervising unions in 1961–2.

Supervising unions were retained in Bombay (Maharashtra) under a new set-up for supervision, the unions and their staff being under the direction of the District Supervision Committees formed with representatives of the department as well as of the unions and non-credit primary societies.[15] At the apex level there is a State Board of Supervision. Sir Malcolm Darling had occasion to comment on this development in his report, where he referred to the fact that in undivided Punjab supervision was the joint function of the Provincial Co-operative Union and the Co-operative Department on the ground that while a central bank could satisfy itself about the financial position of its client societies, it was not its function to concern itself with their internal arrangements or with any other aspect of their affairs. Sir Malcolm suggested that wherever the supervision of primary credit societies is not the responsibility of the central bank and the system works satisfactorily no change need be made. On the question of the undesirability of the central bank concerning itself with the internal affairs of its member societies, it is relevant to note that these societies depend overwhelmingly on the central bank for their finance and in such a context there is sufficient justification for the central bank, as the major financier, to supervise its affiliated societies.

State Institutes

The State Co-operative Institutes or Unions are not unions

under the definition of the Maclagan Committee,* but they are so closely related in composition and in some of their functions that they may be considered here. Such institutes date from 1915 and now are found in most of the states; but their functions differ somewhat from one state to another, as do their effectiveness and importance in the co-operative picture.

The overlapping of the institutes' functions with those of the Co-operative Department and the central banks which is quite generally found is not in the interest of efficiency and emphasizes the desirability of reorganization with demarcation of activities on logical lines, with only such deviation from uniformity between states as local conditions may dictate.

The principal functions of the state institutes are the imparting of co-operative education, the conducting of propaganda, the furnishing of a focus for non-official opinion affecting the movement, and serving as a liaison body between the Co-operative Department and the honorary workers upon whose ability and interest the success of co-operation as a popular movement in no small part must rest. In certain states, audit as well as supervision has been a function of the institute.

The co-operation of the institute and the department is obviously desirable in the educative effort, which, with the closely related one of supervision, is the former's most important function. In a few of the erstwhile states of India, such as Cochin and Gwalior, education was under the direct control of the department. In most states at present education is conducted partly by the department and partly by the institute. At the all-India level, there is the National Co-operative Union.

In relatively few states is the state institute taking its proper place as the spearhead of the educational drive. In West Bengal, there are four training institutes for the staff of co-operative societies and the Co-operative Directorate. The State Co-operative Union and the 16 district unions impart training to members, prospective members,

 * See p. 241

office bearers and staff of co-operative societies. The Bihar Cŏ-operative Federation used to hold an annual three-month training camp for departmental officers and others. The regular training institute in that state, which functioned from 1928 to 1934 with full-time lecturers, was later revived and in 1945 was sanctioned for five years for training the cane development and marketing unions' and the cane-growers' societies' officers and staff.[16] Bihar has now three co-operative training institutes run by the government for training junior co-operative personnel.

Orissa's three co-operative training institutes give training to junior co-operative personnel. The Orissa State Co-operative Union conducts training classes for secretaries and managing committee members of societies.[17]

Madras has a Central Co-operative Institute, which chiefly trains candidates for appointment as Junior and Senior Inspectors. Of the year's course, nine months are spent in the Institute, three in the districts. There are also five *mofussil* institutes in Madras, training candidates seeking employment in co-operative institutions, central banks, stores, etc., and conducting six-week courses for employees of non-credit institutions. The Madras State Co-operative Union, now called the Tamil Nadu Co-operative Union, controls and co-ordinates the work of the *mofussil* institutes.

The Punjab Co-operative Union in undivided Punjab, which celebrated its silver jubilee in July 1943, was never under the Registrar's control. Representing nearly 27,000 primary societies, it was the chief non-official co-operative institution in Punjab.[18] It had been to a considerable extent responsible for developing and controlling the movement there, in close touch with the Co-operative Department.[19] Between 1939–40 and 1943–4, 13,307 had attended classes conducted by the department's education staff for the office-holders of societies. Classes had been held also for secretaries and for members of industrial societies, for execution agents and liquidators and inspectors. At present in Punjab the Co-operative Training Institute at Jullundur is in charge of the training of sub-inspectors, auditors and secretaries of

primary societies and junior accountants and clerks of the Co-operative Department. There is a special staff in the department which is in charge of the training programme. The Punjab Co-operative Union is in charge of propaganda and publicity.

Co-operative education as a function of the institute has advanced greatly in Bombay (Maharashtra) in the last few years. In accordance with the recommendations of the government's Co-operative Training and Education Committee, headed by Shri Janardan Madan, the Bombay Provincial Institute's education and training were revised. The name of the Institute has now been changed to Maharashtra State Co-operative Union. It was made the sole agency for the training of departmental officials as well as non-officials. Its Co-operative Training College at Poona was inaugurated in June 1947, to train the higher staff of the Co-operative Department (a long step forward) as well as that of co-operative institutions. Only graduates are admitted to its course, on completion of which a 'Higher Diploma in Co-operation' is awarded. There are also regional schools in the state, which give co-operative education to supervisors, bank-inspectors, assistant co-operative officers and the secretaries of big multipurpose societies and purchase and sale unions, and award a Diploma. Educational Supervisors, posted in the districts from 1 July 1947, organize training classes for secretaries and managing committee members.[20] The Maharashtra State Co-operative Union also conducts in the districts secretaries' training classes, refresher courses and managing committee and ordinary members' classes through the training inspectorate attached to the District Co-operative Boards which function as agencies of the Union for its educational programmes. Whether or not the Maharashtra State Co-operative Union could today challenge the claim made in 1939 for the Co-operative Union of pre-partition Punjab as being 'undoubtedly a far more powerful and influential body in the matter of control of policy and general development than other corresponding bodies in other provinces',[21] it can certainly claim the lead today in educational prestige.

Short refresher courses for official workers to keep them enthusiastic and abreast of new co-operative developments and methods have been an important feature of the educational work in many states.

Whether supervision should be the responsibility of the state institute or the financing institution is a moot point. The central bank is naturally interested in the financial soundness of its member societies, but its interest and theirs are sometimes different. The institute, if it has less of a stake in the societies' conduct, can bring a more detached and impersonal consideration to bear upon their problems and, if sufficient funds are at its disposal, supervision admirably complements the institute's efforts in the fields of education and of propaganda. Professor V. G. Kale and Shri V. L. Mehta wrote, in a note dissenting from the recommendation of the Bombay Supervision Committee (1933), that the District Boards of Supervision which it approved should be separate from the institute:

> Neither education nor training nor propaganda can be useful or effective unless associated with the duties of guiding and advising primary societies in their day-to-day work, and an Institute which is cut off from organic contacts with the respective local federations of societies will languish and wither away inasmuch as it will have no basic soil into which it can throw its roots and from which it can draw its sustenance.[22]

The District Boards in that case, they felt, would be virtually if not directly controlled by semi-local Co-operative Department officers, whose proper function was not to conduct registered societies but to examine their working and tender advice and help from outside.[22]

In certain areas audit had been combined with the supervision function of the institute, as was the position formerly in Burma,[23] in Punjab,[24] and in Bihar and Orissa.[25]

Propaganda is another function eminently suitable for the state institutes, though in some of the states where most active propaganda has been carried on, the Co-operative Department has played a great part in it. The methods range from co-operative stalls and shows in exhibitions to periodical broadcasting, illustrated lectures, the arranging of group conferences, etc. In Uttar Pradesh,

the Publicity Section of the Co-operative Department holds conferences and meetings at group, district and regional levels. It also conducts study tours. State and district co-operative conferences and seminars have been common in many states.

A resolution passed at the Bombay Provincial Co-operative Conference (April 1948) called for the appointment of a special publicity officer to be attached to the institute, to see that co-operative news made the headlines.[26] Propaganda for co-operation was conducted in the past among the armed forces and classes were held, as in undivided Punjab[27] and Uttar Pradesh, for selected servicemen who might be expected to carry the gospel of co-operation and perhaps to serve the movement actively on returning to their villages.

A number of the state institutes publish magazines on co-operation, some in English, some in the regional languages. To mention but a few: The Punjab Co-operative Union and the Madras Union publish an English monthly and quarterly respectively. The Travancore-Cochin Co-operative Institute publishes a co-operative weekly in Malayalam. The Cochin Institute publishes a Malayalam monthly.[28] Orissa has an English periodical, the *Orissa Co-operative Journal*, launched in 1948. Elsewhere co-operative quarterlies are published in English, as in Uttar Pradesh and Maharashtra. Steps were taken in 1947–8 to start journals in the regional languages at Bombay's three regional schools. These were published in Marathi, Gujarati and Kannada. The co-operative institute in Kashmir used to publish a quarterly, in English and in Urdu.[29] The Andhra State Co-operative Union is publishing a co-operative monthly in Telugu. The Hyderabad Co-operative Union is publishing monthlies in English and Telugu. The National Co-operative Union of India publishes the quarterly *Indian Co-operative Review* and also a fortnightly journal entitled *The Co-operator*.

Co-operative rallies are more frequently held in some states than in others. International Co-operators' Day is quite widely celebrated, but to judge from the number

present at some of these functions, the response is not what one would expect from a movement which should evoke enthusiasm. Member apathy may be less apparent in the *mofussil*; from other parts of the country enthusiastic gatherings have been reported.

Several of the state institutes and unions, notably those in Uttar Pradesh, Maharashtra and Madras, have co-operative libraries, but much more remains to be done in this direction. It may be mentioned here that there is a deplorable absence of good translations in the regional languages of standard books on co-operation and rural credit available in English. In the rural areas, co-operative literature of any kind is practically non-existent.

The importance of introducing co-operation in the normal schools and of lectures by co-operative officials in high and middle schools has been recognized in several states in the context of propaganda effort, but a caution was given by Mr Hubert Calvert in connexion with the normal schools. It would, he wrote, do more harm than good unless it could be driven into them most thoroughly that the schoolmaster's attitude towards pupils is the last thing co-operation wants.[30]

A valuable service of the institutes is the furnishing of a focus for the activities of non-officials who are interested in the cause of co-operation. The importance of volunteer services to the Indian co-operative movement has been great. Not only have some rich men joined societies of their poorer neighbours to guide their efforts and strengthen public confidence, but instances have not been wanting of officers financing a society themselves in case of need.[31] The officers of agricultural primary societies, except the secretary, uniformly serve without remuneration and, in a great many cases, perhaps in most, the directors of the central and state banks give their services free. As has been well said, 'The services of the villagers embodied in the structure are a greater miracle than the structure itself'.[32]

Small landlords living out in the districts not only make good directors of central banks, but also can furnish excellent supervision to neighbouring primary societies where they

will undertake it. The Nicholson Report of 1895 emphasized this point:

> The future of rural credit lies with those who, being of the people, live among the people, and yet by their intelligence, prescience and energy are above the people ... The whole of this report might be summed up in two words: 'Find Raiffeisen'.[33]

Honorary organizers have played a prominent role in the movement almost from the first, their importance varying considerably, however, from state to state. Except perhaps in a few states, the response of the educated class to the need of the movement for disinterested volunteer service has not been proportionate to the opportunity, and in recent years there is an apparent falling off in numbers of new recruits, if not in the enthusiasm of the many veteran servers of the movement. It is noteworthy that almost all the outstanding honorary workers are men in late middle age. In recent years, there has been the emergence of a class of co-operators who are either politicians or have political ambitions and wish to make use of co-operative societies for furthering their ends. There can be no more important objective of the institutes' propaganda drive than to recruit the active interest and support of men and women of public spirit, without whose backing the co-operative movement of the future will lack a vital factor. Voluntary service in the movement offers an ideal occupation to retired civil servants, but it also demands the zest and the idealism of youth. 'The dearth of local leadership, unselfish and informed' was given by the provincial Registrar in his annual report for 1928–9 as 'one of the main reasons for the collapse of rural credit co-operation in Burma'.[34] It is unnecessary to point out the potential benefit to India and Pakistan from the opportunity which the co-operative movement offers for training in leadership.

It must be recognized that the state institutes, with their honorary workers, still represent an approach to the co-operative movement from above, no less than the official approach, but, as pointed out in the Horace Plunkett Foundation's *Year Book of Agricultural Co-operation* for 1931:

. . . the essential difference is that they are not official but purely voluntary in their constitution and purpose. Nor are they in competition with the official hierarchy of the societies, but in time should come to be a most valuable reinforcement for all that the Registrars and their staff and the official Unions and Federations are trying to do for the establishment of a self-reliant movement.

The expenditure of the state institutes varies of course considerably with the functions undertaken, being highest in states where supervision is among their duties. They derive their support mainly from fees and contributions from members and from government subsidies, which vary widely from state to state. There is complaint in some quarters that the support from the government is not adequate to permit the institutes to discharge their functions properly. The Maharashtra Co-operative Societies Act provides for compulsory contributions for co-operative education to the Maharashtra State Co-operative Union out of the net profits of a society. A similar provision also exists in other states such as West Bengal, Orissa and Mysore. This device seems admirably designed to integrate the movement and to make the institute the popularly supported organization which it should be if its non-official character is to be retained. It is also fully justified where the institute is discharging functions of such importance to the societies' success as co-operative education and supervision, especially where the societies concerned have an effective voice in the conduct of the institute.

In a few states the government grants to the institutes are generous. The institutes in Madhya Pradesh, Uttar Pradesh, Punjab and West Bengal are probably examples of institutes requiring more assistance than they have received. Factors such as the salary increases necessitated for employees by the rising living costs seem responsible for the weak financial position of the institutes and unions in several states. Reference may be made in this connexion to the recommendation of the Committee on Co-operative Law (1957) that every co-operative society should be required by law to contribute to a Co-operative Education Fund, at a prescribed rate. This will go to augment the

resources of the institutes, without their having to lean too much on the government for support.

The All-India Co-operative Institutes' Association, the 1931 session of which the present writer attended at Hyderabad, was formed in October 1929, to serve as a common platform for the exchange of opinions among the several institutes and to give their united views greater weight for the country as a whole.[35] Its recommendations represented a synthesis of non-official opinion and it was one of the chief co-ordinating agencies for the movement, especially important in the years when the Registrars' Conferences were not held.

The amalgamation of the Conferences of provincial institutes and of Registrars of the Indian Republic, discussed in the summer of 1948, has since been effected. This closer integration is good, provided the non-official element retains its vigour and initiative. The committee appointed by the Government of India to consider proposals for the consolidation of the movement, etc., made its report early in 1949. The chief recommendations, apart from the amendment of the Co-operative Societies Act of 1912 to bring it up to date, were for the formation of an All-India Co-operative Council and an Indian Co-operative Union and the combining of the Conferences of the Provincial Institutes' Association and of the Registrars of Co-operative Societies.

The All-India Co-operative Union itself, representing all the co-operative interests in the country, was brought into being at the Eighth All-India Co-operative Conference, held at Bangalore on 14 and 15 May 1949, superseding the All-India Co-operative Banks' Association and the All-India Co-operative Institutes' Association. Registration of such an all-India body was provided under the Multi-Unit Co-operative Societies Act (Act VI of 1942). Membership in the All-India Co-operative Union was open to all state co-operative societies, institutions and federations. It aims to promote the co-operative movement throughout the country, with special attention to the organization of co-operative education and training and research in the co-

operative field. The All-India Co-operative Congress was to be held under the Union's auspices, the latter's President being in the chair. The preponderance of the non-official element was assured by restricting official representatives to 110 out of 300. The All-India Co-operative Union has been re-organized as the National Co-operative Union of India. The First Indian Co-operative Congress was held in Bombay in February 1952 under the auspices of the All-India Co-operative Union. The Second Indian Co-operative Congress met at Patna in March 1955. It was a historic occasion when the co-operators of the country generally accepted the integrated scheme of rural credit of the All-India Rural Credit Survey Committee. The Third Indian Co-operative Congress was held in New Delhi in April 1958. The Congress discussed various aspects of the integrated scheme of rural credit, especially those dealing with state partnership. The Fourth Indian Co-operative Congress met in New Delhi in December 1963. Its main theme was the progress of the co-operative movement since the Second Five-Year Plan.

Hope for still closer co-ordination of the co-operative movement throughout the Indian Republic may be entertained on the strength of the allocation of subjects in the Constitution of India which came into effect on 26 January 1950, between the union government and the governments of the respective states—that designation applying to the former provinces as well as to the territories of the old Indian States. For, while 'Co-operative Societies' are under state jurisdiction, the union list includes union agencies and institutions for professional, vocational or technical training or the promotion of special studies or research. It is to be hoped that this provision will be fully availed of for the strengthening and standardizing of the co-operative effort throughout the Indian Republic. Following the recommendations of the Saraiya Committee, some states have set up co-operative councils consisting of official and non-official co-operators and workers. These councils function as advisory bodies on matters relating to co-operation.

Banking Unions

There is still another type of union, the banking union, brief consideration of which has been left to the last because its usual functions are virtually those of a central bank, from which it differs chiefly in name and in the small size of the area covered, and in the fact that banking unions generally confine their membership to primary societies, while individuals as well as societies are usually admitted as members of central banks.[36] Madras, however, had banking unions with both individuals and societies as shareholders from 1912[37] but none is in existence now.

Punjab in 1955–6 had 32 banking unions as compared with 24 central banks, but almost all the banking unions in that state have since been merged with the central banks. In Mysore, where the banking unions had depended for their finance upon central banks or the apex bank, they had not worked well and the government in the early thirties ordered them to be wound up.[38]

Where the banking union had served its societies in other than the credit line, great success had sometimes been attained. The striking success of the Kodinar Banking Union of Baroda, among particularly backward people, was written up by the Agricultural Credit Department of the Reserve Bank of India in its first Bulletin in 1937 and doubtless gave an impetus to the idea of multipurpose societies throughout the country. That Union had not only financed member societies but had supervised them, supplied their agricultural requirements, hired out machinery, arranged for the sale of produce and educated their members, insisting always on self-help, and thereby had wrought the greatest transformation in the area.[39] Later reports give the impression that the experience of the Kodinar Banking Union with regard to its non-credit functions has not been satisfactory. On the supply side, it took up the sale of seeds and fertilizers on credit, though these were initially sold for cash. With regard to sale of members' produce, traders failed to pay their dues on purchases made from the Union. On the production side, the Union's demonstration farm did not pay its way. This confirms to some extent

the view referred to earlier of the dangers of combining trading with banking. The history of the Panjawar Co-operative Banking Union in Punjab, told in Reserve Bank Bulletin No. 4,[40] was another 'success' story to convince the most sceptical of what the 'Co-operative Commonwealth', which is the Congress Party's goal for India, may hold within its gift in general well-being. The Sittang Colonies Banking Union in Burma was the subject of another Reserve Bank Bulletin.[41] Both these bulletins are now very old. The present position of the organizations dealt with in the bulletins is not known. These 'success' stories are no doubt of value, but it has to be remembered that conditions in India vary so much from region to region that it is not possible to repeat successful co-operative ventures in new areas without a thorough study of local conditions. Otherwise, the experiments are likely to fade away after an initial spurt of activity.

The optimum size of the banking union was once a moot point. The smaller the unit, the more effective supervision was likely to be, but the more difficult the securing of able management, and the attracting of adequate deposits. The Reserve Bank years ago favoured a small area, approximately a taluka, but it mentioned that this proposal had not been favourably received in co-operative circles, for the reasons mentioned and especially because too small a union cannot afford to pay an efficient staff. In fact, the generally accepted plan is to have one central bank for one district. Existing banking unions which generally cover one taluka, are being merged with the central bank of the area. They are not being registered now; the existing banking unions are gradually disappearing.

The financial problems of the banking unions differ little, if at all, from those of the central banks, and so need not be separately considered.

CENTRAL BANKS

Neither unions nor central banks were included in the Act

of 1904, although the latter had formed part of the Raiffeisen scheme. They sprang up soon after the passing of that Act, but, like unions, they were without specific legal sanction until the passing of the Act of 1912, which defines their purpose as to facilitate the objects of co-operative societies.

Central banks, as at present constituted, existing solely to lend money and being managed on purely business principles, are not, it has been claimed, strictly co-operative institutions, but they form the necessary connecting link between co-operative distributors and collectors of funds and the money market.[42] The primary societies could not by themselves attract enough funds, and the joint-stock banks have been reluctant to deal with them directly because of the special nature of their business, the extent to which they have relied on personal credit, and the difficulty of supervising them,[43] so a superstructure in the co-operative scheme is essential.

Because they have registered societies as members, central banks, under the Act of 1912, must have limited liability. This may extend to the face value of shares or to a multiple thereof, as in the German societies.[44]

The Maclagan Committee recommended that a central bank cover as large an area as was compatible with convenience and efficiency, but thought a central bank might be expected to deal ordinarily with at least 200 to 250 societies.[45] The areas of central banks are usually larger in Gujarat, Maharashtra and Madras than they are in states such as Punjab, Bihar, Uttar Pradesh, Madhya Pradesh and Orissa and indeed in the vast majority of states in India. In Madras, the usual area has been the revenue district.[46] In 1961–2, Punjab, Madhya Pradesh, Bihar, Orissa and West Bengal had 25, 54, 35, 17 and 29 central banks respectively. The number of districts in these states was 19, 43, 17, 13 and 15, and plans are now being carried out in these states to reduce the number of central banks so as to have one strong, viable, central bank generally for one district, as suggested by the All-India Rural Credit Survey Committee and strongly endorsed by the Reserve Bank. As minimum standards for economic central banks,

the Reserve Bank's Standing Advisory Committee on Agricultural Credit suggested Rs 20 to 25 lakhs as working capital and about Rs 3 lakhs as paid-up share capital and reserves. These standards were indicated in 1952 and are now out-of-date, especially in view of the vast expansion of credit which has taken place under the co-operative development plans. Amalgamation is usually a slow and complicated process, especially in view of the objections the smaller units are likely to raise. The Rural Credit Survey went so far as to suggest that central banks which refuse to co-operate in the plan for amalgamation should be disaffiliated from the state co-operative bank and denied all privileges by the administration. There appears to be justification for such measures because there is an urgent need for a rationalization of the structure of co-operative central banks in India. Central banks in most states in India are extremely unsatisfactory institutions.

One factor of importance is the location of central banks at important centres of trade so that they may be linked up with the natural economic arrangements.[47]

From the standpoint of co-operative principles, the federal type of central bank is the best. The Maclagan Committee opposed central banks' having any individual members,[48] but though there have in the past been federal central banks in undivided Bengal and Punjab and, to a smaller extent, in the United Provinces (Uttar Pradesh) and Bihar and Orissa, this recommendation of that committee has not been widely followed. They have, however, been reported to work well where their area of operations is relatively small and they serve a compact group of well-established societies. The Madras Committee recommended the elimination of individual shareholders from the constitution of central banks.[49]

The old capitalist type of central bank with only individual shareholders had virtually died out by 1930, though in one instance in the United Provinces a rural bank with moneylenders as shareholders, lending to neighbouring societies, was reported to have worked well.[50]

For the country as a whole, owned capital formed in

1961–2 only 17·5 per cent of central banks' working capital. Deposits constituted 35·3 per cent of the working capital. The Maclagan Committee held that share capital should be as large as possible, consistent with the efficient working of the bank, and laid down the rule that the share capital of central banks plus their reserve should be at least 12·5 per cent of total liabilities. At the time of their report, owned capital averaged 14·8 per cent of total liabilities, the corresponding figure for Indian joint-stock banks being 13·9 per cent and for forty-eight leading joint-stock banks in England, 7·6 per cent.[51]

As already mentioned, owned capital of central co-operative banks formed 17·5 per cent of their working capital in 1961–2. The relevant percentage for the previous year was 16·7. The Reserve Bank's *Statistical Statements* for 1961–2 shows that in some states the capital structure of central banks is very weak. As compared with an all-India average of Rs 12·31 lakhs, the average share capital per central bank was Rs 3·79 lakhs in Assam, Rs 2·25 lakhs in Bihar, Rs 3·06 lakhs in Jammu and Kashmir and Rs 2·87 lakhs in West Bengal. The minimum paid-up share capital and reserves per central bank recommended by the Reserve Bank's Standing Advisory Committee on Agricultural Credit was Rs 3 lakhs.

There has been for many years increased appreciation of the value of reserve funds, thanks to the training the co-operative movement has given, though at first many central banks were eager to distribute their profits in the shape of as large dividends as possible.[52]

The Reserve Bank drew attention, however, to the fact that the reserve funds had sometimes been created without making adequate provision for bad debts, and so many turned out to be partly fictitious.[53] The reserve funds of central banks in 1961–2 totalled Rs 14·14 crores as compared with Rs 11·94 crores in the previous year. The bad debts reserve totalled Rs 2·78 crores in 1961–2; the increase when compared with the previous year's figure was negligible. It may be noted that the percentage of overdues to out-standings was 15·7 in 1961–2 as compared with 12·5 per

cent in the previous year. The total bad and doubtful debts formed 6·01 per cent of the overdues in 1961–2.

Direct government assistance has been little relied on by central banks in general, except in the past where there was no provincial bank, as was the position for example in Orissa before October 1948. The provincial government there in 1945–6 lent Rs 2,17,000 to the solvent central banks for financing their societies; and Rs 96,000 to good primary societies affiliated to the several insolvent central banks.[54] Under the co-operative development plans, the state governments contribute to the share capital of central financing agencies and large-sized credit societies, directly or indirectly, to give them adequate borrowing power. For this purpose the state governments can borrow from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund. A point which may be stressed in this context is that central financing agencies should, on their own, attract more share capital from member-societies by linking the amount of the loans granted to such societies to their shareholdings. The All-India Rural Credit Survey Report has also laid considerable emphasis on increasing the share capital of central financing agencies by stipulating that the borrowings of societies should be fixed at a certain proportion of their shareholdings in the banks. The Reserve Bank has been recommending to all states that this proportion may be 5 per cent.

Loans and deposits from the state co-operative bank or from other central banks are common, but overwhelmingly the central banks' greatest source of funds for the country as a whole has still been individual deposits. Out of a total of Rs 124·46 crores representing deposits from all sources in 1961–2, deposits from individuals and others amounted to Rs 74·60 crores, composed of Rs 7·03 crores from members and Rs 67·57 crores from non-members. Even though the amount of deposits increased from Rs 112·02 crores in 1960–61 to Rs 124·46 crores in 1961–2, their proportion to working capital diminished from 36·8 per cent to 35·3 per cent during the same period. Out of 387 central banks in the country in 1961–2, only 24 banks had deposits of

Rs 1 crore and over. Of these 24 banks, 9 were in Maharashtra, 6 in Gujarat, 4 in Madras, 3 in Mysore and 1 each in Kerala and Punjab. The average deposit per central bank was Rs 32·16 lakhs in 1961–2 as compared with Rs 28·72 lakhs in the previous year. The variations between states are considerable.

The working capital of central banks has been augmented to some extent in many states by the government authorities permitting state railways and other government departments and local bodies such as municipalities, taluka boards and district boards, to deposit their surpluses in them.[55] The total working capital of central banks increased from Rs 304·05 crores in 1960–61 to Rs 352·65 crores in 1961–2.

The average working capital per central bank was Rs 26·76 lakhs in Assam, Rs 13·35 lakhs in Bihar and Rs 24·27 lakhs in West Bengal.

The maximum borrowing power of central co-operative banks is fixed as a multiple (usually ten times) of their owned funds, the owned funds being defined as paid-up share capital and statutory reserve fund. However, in some states, the other reserves are also included under the term 'owned funds'. In Maharashtra, a central bank cannot incur liabilities exceeding twelve times the total amount of its paid-up share capital, reserve fund and building fund, minus accumulated losses. However, with the previous sanction of the Registrar, a bank can borrow in excess of this limit. In Madras, the maximum credit limit of a central bank is ten times its owned capital, that is, paid-up share capital and reserve fund. The Registrar can relax this limit subject to the condition that the excess over the normal borrowings is utilized for financing special schemes undertaken by the co-operatives.

It may be mentioned that the Maclagan Committee believed central banks were justified in accepting current accounts only where adequate banking facilities were absent.[56] The acceptance of deposits involves serious management problems for the central banks, as the requirements of the primary societies, especially of the rural type, often cannot easily be made to fit in with the bank's liabilities

to its depositors. Loans to agricultural societies usually are payable only at harvest, with the result that the central banks may have surplus capital during the slack months from August to February.[57] However, difficulties in attracting deposits, sometimes ascribed to the competition from commercial banks, has been a common recent complaint of the central banks.

During the war years the problem should have been recognized early, but was not always, as one, not of attracting deposits to the central banks, but of lowering their interest rates to a point where deposits beyond profitable dimensions would be discouraged.[58] Such a scaling down of interest rates, of course, presupposes sufficient fluid assets to meet the demands of all who react to the change by demanding the return of their deposits, a condition not always present.[59] As Dewan Bahadur K. D. Mudaliar has pointed out, 'the inability of any small central bank to repay the deposits on the due dates may precipitate a run and be likely to affect the other banks, though they may otherwise be good, as happened in Orissa and elsewhere'.[60]

The reduction of interest rates to discourage deposits has sometimes actually defeated its purpose by improving the bank's credit standing, so that outside deposits have continued to be made.[61] But the problem now for central banks is how to attract sufficient deposits to meet their large commitments without putting up their rates of interest, a procedure which will involve a rise in the rate of interest to be paid by the ultimate borrower.

During the war period, and for a short period after the war, the development of purchase and sale societies, stores, and co-operative societies of other types reduced the seasonal fluctuations of purely agricultural credit and offset the decreased need of the agricultural credit societies for seasonal finance, due to the improvement in their position resulting from higher prices of agricultural produce. Cochin's central bank started a house construction scheme in 1946–7,[62] which absorbed some of its surplus cash, though it is of dubious wisdom for a central bank to tie up its funds in such a long-term investment. It was once the

practice of a few central banks in the Central Provinces and Berar[63] to utilize their surpluses on short-term and medium-term loans on first mortgages of agriculturists' lands for crop-raising and the purchase of cattle and implements. Such direct loans, even to the limited extent permitted, seem objectionable on this and several other counts. They represent an invasion of the primary societies' proper field for short-term loans and of that of the land mortgage banks for loans for longer periods; if loans are made direct to primary society members, their ties with their own society are thereby weakened and the dangers of double borrowing are introduced; if only to non-members, and these are creditworthy from the primary societies' standpoint, such loans seem to put a premium on non-membership in primary societies.

Sight should not be lost of the lesson that the sinking of short-term capital in long-term loans all but brought the movement on the rocks in Bihar,[64] in northern Orissa, in the Central Provinces and Berar[59] and elsewhere, during the depression.

Investments of surplus funds in government securities and in other central co-operative societies, while not highly profitable, are a safer recourse than some of the investments to which the central banks have turned.

On the question of the investment of the surplus funds of central co-operative banks, the Reserve Bank's Agricultural Credit Department issued a circular letter in June 1957 in terms of which the Registrars of Co-operative Societies were advised to ensure that the surplus funds of co-operative banks were not diverted to commercial banks. The central banks should not be permitted to have seasonal or fixed deposits with commercial banks. The circular also reiterated the recommendation of the All-India Rural Credit Survey Committee that the state co-operative bank should be made the custodian of the surplus resources of the co-operative banking structure. Central banks would thus have only one mode of investment, namely, deposits with the state co-operative bank, even though there would be no objection to investments in government securities.

Dewan Bahadur Mudaliar once pronounced too much dependence on short-term deposits 'the fundamental weakness of the present co-operative banking structure'.[65] He favoured supplementing such deposits by long-term money raised through the flotation of debentures, with or without government guarantee or by government loan, but, where there is an apex bank, the issue of debentures by central banks should not be necessary.

The old objection, as made by the Maclagan Committee,[66] to central banks doing regular banking business—accepting current and savings as well as fixed deposits, making remittances, collecting bills, cheques, *hundis*, dividend warrants, etc., issuing drafts and *hundis*, offering safe custody of valuables and sometimes loaning to members against tangible security such as fixed deposit receipts, government paper, gold, silver and agricultural produce[53]—has been quite generally waived. Bombay, in rejecting the Gadgil Sub-committee's proposal for an Agricultural Credit Corporation for the state, accepted for the Co-operative Department and institutions the role assigned to that corporation by the committee. The maximum rate of interest charged by central financing agencies in Bombay on loans to agricultural credit societies has been about 4½ per cent since 1952. In the states of Gujarat and Maharashtra, which previously formed part of the old Bombay State, the usual rate of interest charged by central banks on their advances to societies for seasonal agricultural operations was 5 and 4½ per cent respectively.

Surplus funds may present a problem to central banks, for in their eagerness for profitable investment bank managers are tempted to relax their credit policy or even to encourage the taking in prosperous times of more credit than is required. Mr F. B. Wace cited the case of a village society member upon whom a central bank director had urged a loan for taking up a line for which he was not qualified, with the result that he had been almost ruined and was still in debt.[67]

In some cases the attitude towards general banking business of the central banks has swung too far in the opposite

direction. The Bombay Agricultural Credit Organization Committee (1947) mentioned a growing indifference on the part of some central banks to the needs of their affiliated village primaries. Their business with individual borrowers, very often traders, was almost as extensive as that with the societies, and attended with less risk and difficulty. That Committee declared:

This tendency has to be firmly curbed if the central banks are not to become useless for the purpose for which they were organized, and we hope that no considerations of autonomy of the co-operative institutions will be allowed by the government or the co-operators to interfere with the fundamental need for seeing that the central banks perform the duties for which they were organized, efficiently and wholeheartedly.[68]

The Nanavati Committee ascribed this difficulty in Bombay to the preponderance of urban elements in the central banks' directorates.[68] It is interesting to note in this connexion that the Berar Co-operative Enquiry Committee in 1939 urged the unsoundness of the position where 'a concern in which the person who finds the capital has no voice while the person who spends it has the position of supreme command'.[69] The Nanavati Committee recognized as an occasional equally dangerous weakness the rural elements having the upper hand.[68] The proper balancing of interests in the directorate of a central bank should not be beyond possibility.

The policy generally followed is to discourage direct financing of individuals by central financing agencies. The loans outstanding against individuals and others of central banks in 1961–2 came to Rs 3·48 crores out of a total of Rs 258·95 crores. The Reserve Bank has underlined the recommendation of the All-India Rural Credit Survey Committee that the first priority in loan operations of the central banks should be given to the requirements of agricultural credit societies. Loans to individuals should be restricted to advances against their fixed deposits or government securities. Further, it has also been stressed that loans to merchants and traders, where they are given, should be eliminated as quickly as possible.

The need for unprofitably large cash balances to enable

the central banks to meet current demands has been partly obviated, in all the major states, by the state co-operative bank, which stands to the central banks in much the same relation as they do to the primary societies. Practically all central banks have enjoyed cash credit or overdraft arrangements with their state co-operative bank and occasionally also with local branches of the State Bank of India.

The management of several central banks at the present time would seem to conform more closely to sound banking practice than in 1915, when the Maclagan Committee complained that only a minority of the more prudent central banks had kept most of their cash credits to meet calls by depositors, the others having loaned to societies practically the whole of their credit, with quite inadequate provision of fluid resources.[70]

Sound banking principles for central and apex banks were laid down as early as June 1939 by the Reserve Bank of India in a circular letter. It dealt particularly with 'the distribution of assets so as to maintain adequate cash and fluid resources; the maintenance of an adequate margin between borrowing and lending rates so as to build up strong reserves; the proper treatment of unrealized interest; proper scrutiny of, and provision for, bad and doubtful debts; the confining of business generally to short-term loans; separate indication of long-term loans and overdues of principal and interest and, in general, proper and accurate presentation of the affairs of the bank in the balance sheet'.[71]

Judged by the criterion that, other factors apart, a bank's total borrowings should not exceed ten times the owned capital and reserve fund, a number of central institutions fall short of efficiency and the deficiency of individual banks in this regard is called to the attention of the authorities concerned by the Agricultural Credit Department of the Reserve Bank of India, where the individual balance sheets of all the important central institutions are reviewed and analysed. It thereby renders a valuable service to the co-operative movement. The Reserve Bank's Agricultural Credit Department also conducts inspections of central and state co-operative banks, etc., on a voluntary basis.

The Reserve Bank objected in its review for 1939–40 to the central banks generally working on an extremely low scale of fluid resources, giving out almost 90 per cent of their borrowed funds, which totalled 77 per cent of their working capital.[53] Detailed standards regarding the maintenance of fluid resources by co-operative banks were laid down by the Reserve Bank's Standing Advisory Committee on Agricultural Credit at its second meeting held in April 1952 and these were communicated to the state governments for adoption, by means of a circular letter issued by the Reserve Bank's Agricultural Credit Department. A few modifications of the forms in which fluid resources are to be maintained were made by the Standing Advisory Committee at its fifth meeting held in January 1956.

It is, of course, highly important that sound co-operative and banking principles be observed by the central co-operative financing institutions. Primary credit societies able to function on their owned capital and local deposits are unfortunately a remote objective for India in general. But it needs to be borne in mind that the primary society is the corner-stone of the co-operative movement. All the central societies exist primarily to serve it and their success as co-operative institutions depends upon their guiding their conduct accordingly. The Bengal Committee on Co-operation laid down as the criterion of success of a central bank, not its own record of deposits attracted and costs pared, but 'the efficiency of the working of village societies under it and the growth of a real co-operative spirit among the members of village societies, resulting in their economic improvement'.[72]

This is in line with the pronouncement of the Maclagan Committee in 1915: '...we regard the benefit of the primary societies as the main object, the central banks and other such institutions being merely a machinery accessory to it.'[73] The central banks in Bihar and in Orissa, as in the old Central Provinces and Berar and elsewhere, have learned the hard way that there can be no prosperity for the financing institution unless the condition of the primary societies which look to it for funds is sound.

That the greater relative importance of the primary societies is not always appreciated is sometimes evident, as in the Report of the Berar Co-operative Enquiry Committee, published in 1939. That committee concedes towards the end of the report 'the patent fact that the primary society, and not the central bank, is the pivot of the movement and that until and unless action is taken for the revival of the primary society there can be no life in the co-operative movement'.[74] But the position taken earlier in the report is that the central institutions must be kept alive at all costs; the implication that the well-being of the primary societies is less vital seems to reflect a fundamental misconception. The Committee remarked in defence of its lottery scheme for the rehabilitation of the central banks: '...if the movement is not to be liquidated, the central banks must be kept alive and must be rehabilitated. From there will radiate rays of life to the societies. New societies will spring up, but the body of the co-operative movement will be kept alive.'[75]

Much as a well-managed central bank can contribute to its primary societies by a wise credit policy and careful supervision, the giving to the central bank of the more important position seems to be basically of the same nature as the totalitarian assumption that the state counts first, the well-being of its citizens being assumed to rest primarily upon that of the state. The primary societies are not the superstructure of the co-operative movement, but its foundation, and any developments which do not rest solidly upon their strength are floating in thin air.

The Reserve Bank in its review for 1939–40 was emphatic that in the interest of the safety of the central banks' own funds, they should take a genuine interest in the well-being of their affiliated societies, through close supervision of their affairs.

It is only if the central banks come forward actively to help in the process that the primary societies can hope successfully to perform the functions of raising the moral and material standard of their members and unless the societies do so, there is no assurance that the movement will emerge from the morass into which it has fallen, or having emerged, will not again relapse into a similar state.[76]

The Bank was convinced that the delegation by the financing agency of the education of primary society members and the supervising of the societies' working had not conduced to efficiency.[77]

The Rural Credit Survey Committee has stressed that central banks should build close and continuous contacts with the primary agricultural credit societies, be sympathetic and responsive to their needs and difficulties, and endeavour to assist them to the best of their capacity.[78]

In some regions, e.g. Orissa, the central banks were expected to organize societies.[79] The Madras Committee indicated that the financing organizations might take a larger share in future in the movement and marketing of crops and 'encourage, stimulate and finance co-operative societies for crafts and cottage industries'.[80] In the erstwhile Baroda State, three out of the eight central banks had undertaken non-credit work by 1944–5, distributing rationed supplies, selling the products of the members of several societies, and supplying fertilizers and pure seed to societies.[81] Most Bombay central banks, during the war and later, undertook the purchase and sale of controlled articles, either acting as government agents or opening fair-price shops or financing societies doing supply and distribution work.[82] Such activities have practically disappeared now. The Rural Credit Survey Committee deprecated the practice of central banks taking up trading activities. The committee was of the view that no central bank should engage itself in trading.

Management

The general management of a central bank is in charge of a board of directors elected annually, or, in some cases, triennially,[83] on the basis of one member, one vote, at the general meeting, which is the ultimate authority in this as in other types of co-operative societies.[84] The requirements for a director of such a bank were described by the Maclagan Committee, which held that the work called less for technical skill than for ordinary probity and knowledge, and should be well within the capacity of any professional man.

He needs only to have a general knowledge of money rates and to fix his own to produce a required margin of profit; he should be careful to forecast the probable receipts and demands from societies, to maintain careful accounts, and to see that his working capital is regularly employed and that sufficient fluid resource is always kept available.[85]

There have been some electioneering abuses in connexion with election to the boards of directors. Communal considerations are reported to have made difficulties, as in pre-partition Punjab and the Berar area of the old Central Provinces. The Committee on Co-operation for Berar reported that candidates had sometimes promised favours and, if defeated, had embarrassed the bank by inducing depositors to withdraw their deposits. Also irresponsible and incompetent people had sometimes been put in; so much so that the committee went so far as to pronounce 'undiluted democratic methods...unsuited to the running of banking institutions, the more so at a time of stress and strain'.[86] Politics has no place at all in a banking institution. In cases where state partnership in central banks, etc., has been accepted, as is now the position in India under the co-operative development plans, it is imperative to ensure that nominations are not governed or influenced by political factors. Sir Malcolm Darling has observed that in one state he visited in India in the course of his tour conducted in 1957 'the white ant of politics was eating its way into the movement'. Sir Malcolm said that 'co-operation and politics should have nothing to do with each other'.

There was widespread supersession of the managing committees of unsatisfactorily working central banks in the Central Provinces and Berar, for example, where, under the rehabilitation scheme, 14 out of 35 banks were taken out of their respective committees' control,[87] of which the direction of 6 had been restored by 1945–6;[88] in Orissa, where 13 out of 15 were still in the charge of the Registrar's agents in 1946;[89] in Assam;[90] in Bihar;[91] and in Travancore.[92] The number of managing committees of societies under suspension at the beginning of 1961–2 was 518. The central banks and banking unions in Mysore were

found to have worked so unsatisfactorily for several years that at one time they were ordered to be wound up,[93] but there were 19 central banks in Mysore in 1961–2. In these as well as in other states the problem now is not the largely administrative one of government taking over the control of the committees of the central banks as in the past, but the more important one of government pushing forward with vigour schemes for a reorganization of the entire structure of central banks so as to have strong, viable, institutions which can function effectively.

The management cost varies from state to state in accordance with the functions assumed by the central banks, as well as with their efficiency of operation, though a low percentage is not necessarily an index of efficient working. The cost of management as a percentage of working capital in 1961–2 was 0·74 in Andhra Pradesh, 2·15 in Assam, 1·03 in Bihar, 1·01 in Gujarat, 1·24 in Maharashtra, 1·80 in Madhya Pradesh, and 0·60 in Madras. The relevant percentage was 1·87 in Orissa, 0·85 in Punjab, 0·75 in Uttar Pradesh and 1·92 in West Bengal. For the country as a whole the management cost of central banks averaged 1·11 per cent of their working capital, as compared with 0·40 per cent for the management cost of state co-operative banks.

At first the directors of the central banks employed no paid staff, doing all the work themselves with the Registrar's assistance,[94] but today a trained staff is considered absolutely necessary. Complaints sometimes are heard that the accountants who are the best some central banks can afford do not measure up to a high standard of efficiency.

The pass to which the movement came in certain areas towards the end of the great depression was very serious. In the Central Provinces and Berar, already mentioned, Rs 84,86,204, or 75·5 per cent of the total loan outstanding against societies, was represented by loans due from members under award and societies under liquidation.[95] The assets of Berar central banks were locked up in land taken from debtor members which was virtually unsaleable at the time. Unwillingness to face facts and procrastination in taking

the steps which, as the Reserve Bank pointed out, were the only practicable solution—the writing off of bad debts and the spreading out of the arrears[96]—were responsible for considerable delay and greater loss, not only in that area but in others also.

The Madras Committee on Co-operation made the excellent recommendation that co-operative central banks take stock periodically to ascertain bad debts and declare them as such annually before net profits were declared.[97] This patently desirable procedure would, if followed, have obviated tremendous losses. It is not enough, surely, to accumulate bad debt reserves without a periodic clearance of the dead wood represented by irrecoverable loans.

In Bengal, where a number of central banks during the depression had had to close their doors because they could not meet deposit withdrawals, the movement had by 1945–6 reached a state of virtual stagnation. The partition of the country in 1947 had serious repercussions on the already weak co-operative credit structure. A considerable part of the assets of the apex bank and some of the central banks was locked up in Pakistan. The state government, however, came to the rescue and guaranteed a portion of the provincial bank's assets locked up in East Pakistan. A scheme for the rehabilitation of the agricultural credit movement is in operation now in West Bengal, with a large measure of aid from the central and state governments.

The rehabilitation pattern of the past varied from province to province, but several provincial governments had to come forward with large grants-in-aid and loans to keep the movement afloat. Thus, in the Central Provinces, government loans provided for part payment of the claims of the central banks' creditors, and for crop loans to members of the reconstructed and new societies. The government also guaranteed interest to the depositors on the scaled-down amounts, and gave an annual subsidy of Rs 1 lakh for three years towards meeting the deficit in management cost.[98]

The government's backing of the co-operative movement from the beginning had imposed an obligation not easy to evade when the breakdown of the movement was threatened in some of the old provinces. The central banks had owed not a little of the public confidence which they have not always deservedly enjoyed to the tacit assurance of backing from the government.[99] The government's own good name as well as that of the movement was involved in the threatened collapse which would, besides, have had a disastrous effect on the economic situation generally.

The majority of the transactions of most central banks have been with agricultural credit societies. Not only are they the most numerous but, in many cases, the less usual types of societies, such as producers' and artisans' societies, housing societies and societies for land improvement, have had special arrangements for obtaining loans from the government, so that many of them have only occasionally sought financial help from the central banks.[100]

Artisans' societies and others of special types may, however, be allowed accommodation up to a limited amount on their general assets; but for larger loans the pledge of goods or other property is required. Sometimes the personal security of members of the borrowing society's managing committee also has been demanded.[100] It has been pointed out that financing failures among non-agricultural, non-credit societies had caused some degree of financial embarrassment to about 10 per cent of the central banks in Bihar and Orissa many years ago.[101] Societies of many different types, however, frequently are served by the same central bank.

In the context of the co-operative development plans, central banks are called upon to finance various types of non-credit societies, especially those related to cottage and small-scale industry. This is appropriate because it would be wasteful to set up a separate credit structure for these types of societies. But this function can be performed adequately, and without neglecting the agricultural credit societies for which central banks are primarily intended, only if these banks are able to mobilize enough resources

of their own, without excessive dependence on extraneous sources of finance. However, when particular schemes are financed mainly at the behest of the government, it stands to reason that the government should come forward to guarantee the banks against losses within certain limits. This is now the accepted policy with regard to the financing of weavers' co-operative societies by co-operative banks.

Interest rates to primary societies are markedly lower than in 1928–9. In Madras in 1945–6 they were 4½ per cent and in Bombay 3 to 7½, compared with about 8 per cent in 1928–9. The usual rate in Madras in respect of advances to societies for seasonal agricultural operations is even now 4½ per cent. It is the same in Maharashtra. The usual rate is 5 per cent in Assam and Bihar, 5½ per cent in Punjab and 6¼ per cent in Uttar Pradesh and West Bengal. Great care is needed in fixing the rates at a point where they will allow a reasonable profit to the central institution without throttling the borrowing society, but the spread between the central banks' borrowing and lending rates seems in many cases greater than, with efficient management and a restrained desire for profits, it need be. The Rural Credit Survey Committee noted that in several states central banks lend to societies at rates which are much higher than their borrowing rates, often because of their weak financial structure, low volume of business and disproportionately high administrative expenses.

A point made by the Travancore Committee seems well taken, that the interest rates to individuals, should be the same for primary societies and central banks, to prevent unhealthy competition.[102] A salutary check adopted some few years ago in Madras empowered the Registrar to fix the lending limits of the central banks,[103] to keep their enthusiasm in that direction within bounds.

In some provinces where reconstruction had been carried out, however, the pendulum swung from credit glut to something not very far from famine, though that was doubtless a temporary phase.[104] In undivided Bengal and in Berar before the reorganization of states, the difficulty

of societies with frozen assets being ineligible for fresh credit was got around to some extent by new crop loan societies for seasonal finance.[98]

For profitable working, a central bank requires most vigilant management, and an area of operations large enough to give it adequate business and enable it to function as an economic unit.

Competition with Joint-stock Banks

The Central Banking Enquiry Committee found some feeling that in the matter of deposits the co-operative banks, with the help of government assistance and prestige, were competing unfairly with the joint-stock banks.[105] They mentioned that in the matter of produce loans the co-operative banks could not in the end fail to affect the business of other institutions in that line, but they considered such loans of so great economic benefit to the cultivators that they recommended their encouragement, subject only to the societies' by-laws and to storage accommodation being available.[106]

An instance came to the writer's personal notice of a small city which seemed over-banked, with four joint-stock banks, a central co-operative bank, and a large people's co-operative bank competing for the limited business of the territory.

The clientele of the co-operative banks in general, however, being normally drawn largely from the small agriculturists and people of limited means in urban areas, the central banks which lend only to members would seem to offer no serious competition to the joint-stock banks. In fact, reports from some of the states indicate that co-operative banks have found it difficult to compete with commercial banks especially with regard to attracting deposits. According to the *Statistical Tables Relating to Banks in India* for 1962, the loans and advances and bills discounted and purchased of all scheduled banks in that year totalled Rs 1,483·38 crores as compared with Rs 495·86 crores for co-operative banks, that is, state and central banks, and urban banks (including banking unions and

industrial co-operative banks) with capital and reserves of Rs 1 lakh and over.

Two Bihar Registrars pointed out more than ten years ago what cordial relations existed between the co-operative and the joint-stock banks in Bihar.[107] There was harmonious co-operation with the joint-stock banks in other areas as well, e.g. Punjab before partition. In fact, the joint-stock banks may be encouraged to make a greater contribution to the country's agricultural credit needs, which the co-operative movement up to now is so far from having adequately met. The Gadgil Committee recommended that 'all reasonable facilities which do not hamper the growth of the co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit organization'.[108] Complaint has been voiced since, particularly by co-operative banks in Maharashtra and elsewhere, that commercial banks are competing with them in the matter of attracting savings and that such competition is adversely affecting them.

In the early days the central banks loaned to each other as well as to primary societies and to individual shareholders, but where there are state co-operative banks such inter-lending is normally uncalled for. Loans are commonly secured on promissory notes of the primary societies. Before making loans, the central banks require, or should require, to be assured that a society is well managed, that there is a substratum of real credit beneath it, that any loan advanced will be devoted honestly to the purpose named and recovered punctually, and that mistakes will be brought to light and corrected before serious consequences can ensue.[109] The Maclagan Committee recommended granting cash credits to especially good societies, subject to annual renewal, to be exceeded by a fixed percentage only when necessary and subject to the increase not being in excess of the normal creditworthiness of the society as a whole, interest running only from the date of actual disbursement, a practice now quite common and of great importance in reducing the delays so frequently complained of in the central financing institutions.[110]

It is because primary society members are not properly educated in co-operative principles that the central banks cannot take the societies' recommendations on loans without sending investigators to decide on loan applications. Indeed, even in the co-operatively advanced Madras State, Sir Malcolm Darling had occasion to observe that 'a statement giving particulars of each member's application is sent to the central bank through the local supervisor, and after it has been examined and if necessary amended, and the society's official position considered, the loan is granted and finally distributed as sanctioned by the central bank in each individual case. With this procedure the society can be little more than the agent of the central bank'.[111] In some other areas there are instances where even the funds are given by the central bank's official direct to the member of the primary credit society. On the other hand, in Punjab it is reported that each society, after taking into account the needs of its members, decides the amount it will borrow and sends in an application for a loan from the central bank, which sanctions the loan on the basis of the financial position of the society. Sir Malcolm Darling recommended that societies classed A and B should be treated differently from those classed C and D and permitted, as in Punjab, to deal direct with the central banks without the intervention of a supervisor.[112] This procedure will eliminate delay and instil a sense of responsibility in the primary society.

If the managing committees of primary societies cannot be trusted to pass on loan applications, the solution lies in their education, and the assumption of their legitimate functions by the central banks should be as a temporary expedient only, and recognized as a necessary evil. The managing committees will never gain initiative and self-reliance so long as their functions are restricted virtually to those of a forwarding agency, and furthermore the co-operative character of the enterprise is thus lost.

A question may be raised in passing as to the ruling that D class societies are ineligible for any loans from the financing institution.[113] How, then, can it be hoped that

they will improve in classification within two years, at the end of which their registration is otherwise to be cancelled? Leaving them to stew in their own juice does not seem the most helpful policy.

The Act of 1912 requires central banks as well as primary societies to carry at least one-fourth of each year's profits to the reserve. Well-managed central banks also have a fund for bad and doubtful debts and individual banks may have various other funds, such as for building, for dividend equalization, etc. Some central banks contribute from their profits to local charities, education and other 'common good' activities.

The ploughing of the share capital of the central banks into their business cannot be objected to as long as they are conducted on sound lines. The Nanavati Committee maintained that investments outside the movement should not be allowed until the needs of the movement had been met.[114] The reserve, however, is part of the depositors' security and should not be risked unnecessarily. In some cases it is invested in other societies, which, in view of past developments, does not seem advisable as a general practice. The Thirteenth Conference of Registrars (1939) took the position that the reserve funds of central as well as provincial banks should be invested outside the movement in unencumbered trustee securities approved by the Registrar, other than mortgages of immovable property.[115]

The Reserve Bank's Standing Advisory Committee, at its fifth meeting held in Bombay in January 1956, formulated the following principles in respect of the investment of the reserve fund of co-operative institutions:

The reserve fund of co-operative societies at the primary level, and of the central co-operative banks at the intermediate (district) level, should be invested outside their business until such time as their respective statutory reserve funds were equal to their paid-up share capital. Thereafter, the surplus might be utilized in the business of the respective institutions. In the case of primary credit societies, the reserve fund should be invested in the central co-operative bank to which they are affiliated. In the case of central co-operative banks, it should be invested in the state co-operative bank to the extent of at least 50 per cent, the surplus being invested in government or trustee securities. All reserve fund investments should be specially earmarked as Reserve Fund

Investments whether they are held as fixed deposits or as government securities. At the apex bank level, the reserve fund should be invested outside the business, viz., in government and other approved securities.

The Reserve Bank has advised co-operative institutions to adopt the principles indicated above. Sir Malcolm Darling, referring to these recommendations of the Standing Advisory Committee, has suggested that in the case of societies with unlimited liability, they should be regarded as 'purely advisory and in no sense mandatory', noting in this context the Maclagan Committee's recommendation that such societies may be permitted to invest their reserve funds in their own business. Sir Malcolm added that if primary societies are asked to invest their reserve funds in whole or in part in a central bank, they should not be employed by the bank in its own business, but kept in some liquid form, the total amount to be in addition to the fluid resources required to cover ordinary deposits. The same rule should be applied to the reserve funds of central banks deposited with the state co-operative bank, the state co-operative bank doing likewise with its own reserve fund.[116]

Dividends are restricted by the various Acts; in Maharashtra the maximum is 6¼ per cent. The usual dividend on central bank shares varies from 1 to 6¼ per cent in Maharashtra and from 3 to 5 per cent in Madras.

Apart from the regular annual audit, which is quite strictly observed in the case of central societies only in a few states, and the check which their balance sheets and inspection enable the Reserve Bank to make, the central banks are more or less independent of outside control in their day-to-day working and the response to the Reserve Bank's suggestions falls in several instances short of alacrity. The record of the movement makes it very plain that closer supervision than has always been forthcoming is very necessary for central banks only less than for their primary societies. The state co-operative bank should be given the same responsibility for its affiliated central banks that the latter should take for their primary societies.

The Nanavati Committee in Bombay agreed that a reorganized apex bank would be the most suitable agency

for supervising and guiding the central banks, and that was actually planned by the erstwhile Bombay Government. No other agency seems feasible, without making the co-operative structure top-heavy. The apex bank in Bihar once took upon itself the supervision and inspection of its central banks,[91] and the system of inspection has been revived recently. Where the apex bank cannot assume the responsibility, the strengthening of official control seems inevitable, but this will be an unfortunate development. Some of the apex banks have built up a machinery for supervision over central banks. This is as it ought to be.

Many Registrars doubtless do what they can, but supplementing the Co-operative Department staff sufficiently to enable adequate supervision of central banks would be a good investment for the state governments, some of which should have learned that to withhold the wherewithal for the required ounce of prevention may cost them dear. That going through an experience is not, however, always to learn from it is illustrated by the movement in the old Central Provinces having been saved from immediate collapse once already, in 1921, only by a large government loan and the guarantee of a substantial cash credit.[117] The Royal Commission on Agriculture (1928) ascribed it to lack of education of members in co-operative principles and to the giving of too much power to the central banks.

A measure of autonomy must be allowed to any co-operative institution, but not at the cost of sound banking principles.

Bombay has had since 1939–40 a Co-operative Banks Association, but it functions chiefly as a consultative body, advising on request on matters of policy and procedure.[118] Something more direct and forceful in the way of supervision is required.

The Madras Committee (1939–40) disapproved the proposed conversion of the central banks in Madras into branches of the apex bank. They had, the Committee said, been the strong point of the co-operative structure in Madras.[119] It had certainly been partly due to them that Madras had survived the depression with much less damage

than several other areas, and they preferred to leave well alone.[120] All the fifteen central banks in that state were generally in a satisfactory financial position at the end of 1961–2. The failure of the Christian Co-operative Central Bank, which had served the depressed class societies, points, however, to their perhaps not always having had the close supervision which the branches of an apex bank might be expected to have. The Rayalaseema Co-operative Enquiry Committee (1945–6) recommended that in that area the central banks be abolished and the primary societies financed directly through branches of the apex bank.[121]

Authoritative opinion, however, has in recent years expressed itself against branches of state co-operative banks operating in the place of central banks. The Rural Credit Survey Committee and the Reserve Bank have endorsed the suggestion of the Standing Advisory Committee on Agricultural Credit of the Reserve Bank that the establishment of a central bank should generally be preferred to that of a branch of the state co-operative bank; in co-operatively undeveloped areas, however, there may be no objection, in suitable instances, to establishing branches of the state co-operative bank; but the policy in such instances should be to replace the branch by a central bank eventually.

STATE CO-OPERATIVE BANKS

State co-operative banks are now found in all the states in India. Such banks numbered 21 in 1961–2.

The state co-operative bank is the final link in the chain between the small, scattered primary societies and the money market, as also with the Reserve Bank of India, the central banking authority of the country, which can be called on for short-term and medium-term accommodation under certain conditions. The state co-operative bank's relations with the primary societies may be direct but are more usually through the central banks.

In Madras a central bank which lent to co-operative societies all over the state was started without government

aid as early as 1907,[122] though it was not until 1917 that the Madras Central Union Bank was constituted the apex bank for the whole state.[123] In some cases, as in undivided Bengal, Bihar and Orissa and the old Central Provinces, the state co-operative bank was formed by the central banks, which felt the need of such a coping-stone for the financial structure.[124] In Bombay the comparatively slow increase in the number of societies in the early years made it hard for the central banks with a restricted area of operations to function successfully; so in 1911 the Bombay Central Co-operative Bank was founded to finance co-operative societies in all parts of the state.[125]

Almost all the state co-operative banks have individuals as well as societies as members. The total number of individual members of the state co-operative banks, i.e. individuals and others, in 1961–2, was 7,494 as against 883 central societies and 22,091 primary societies. Preferable as the purely federal state co-operative bank may be from the standpoint of a neatly integrated co-operative structure, it cannot be gainsaid that financiers acquainted with commercial banking practice and believers in the co-operative ideal can be a great source of strength on the directorate. The Maclagan Committee regarded it as comparatively unimportant whether the co-operative element or individual shareholders had a dominating voice on the directorate of an apex bank.[126] Individual shareholders were, however, found by the Nanavati Committee (1947) to be over-represented on the board of the Bombay Provincial (State) Co-operative Bank, having 7 directors against 3 representatives each of central banks and agricultural societies and 2 of urban banks.[127] It proposed a reconstitution of the board, to give less weight to individual shareholders' interests. The Board of Directors of the Bombay State Co-operative Bank now includes one director from each affiliated district central co-operative bank and five directors representing individual members.[128] It is apparently in that state that co-operative finance on the higher levels has had its most striking development. The Rural Credit Survey Committee had no objection to a

strictly limited number of individuals being admitted as members of the state co-operative bank.

Branch banking was a prominent feature of the Bombay State Co-operative Bank, whose branches numbered 62 on 30 June 1956. The Bombay State Co-operative Bank also functioned as a central bank in certain areas, some of them backward regions, and this system had worked well,[127] the Nanavati Committee found, approving its continuance at least in certain areas. The policy followed is to close the branches as soon as central banks spring up in the area. This policy has been put into practice. In 1961–2, the Maharashtra (formerly Bombay) State Co-operative Bank had only 12 offices, including the head office.

The provincial bank in the old Central Provinces and Berar had a number of offices in connexion with its commercial activities.[129] In most states, the apex banks do not deal directly with societies except those of special types, such as land mortgage banks, apex weavers' societies, etc.

The working capital of the state co-operative banks aggregated Rs 256·09 crores in 1961–2, of which Rs 81·44 crores was from deposits, some Rs 29 crores being represented by owned capital. Loans from the Reserve Bank accounted for Rs 131·72 crores as compared with Rs 113·82 crores in the previous year.

Share capital has been increased from time to time as the statutory limit of outside borrowing has been approached, which in Maharashtra is fifteen times the paid-up capital and reserves, less accumulated losses, actual bad debts and overdue interest. The limit in Madras is fifteen times the share capital and reserve fund. The Registrar can raise this limit to twenty in certain circumstances. Owned funds represented 11·3 per cent of the working capital of the state co-operative banks as a group in 1961–2 as compared with 10·8 per cent in the previous year.

The primary function of an apex bank, of course, is to balance the finances of the movement in its area. This it discharges by attracting deposits, providing a centre through which the surplus of one central bank can be passed on to meet the needs of another, serving as a clearing-house

for the cheques of co-operative banks, and rediscounting commercial paper.

The apex banks in all areas except Assam and Bengal, and also those in Hyderabad and Mysore, had by 1945–6 added commercial banking to their functions. Loans to individuals, in Bombay chiefly to merchants and to traders, against agricultural produce,[130] accounted for just under half of all fresh loans by the apex banks in that year. The percentage was only 8 for Madras and nearly 30 for Bombay,[129] but in undivided Punjab loans to individuals were 74·8 per cent of all fresh loans, while the apex bank in the Central Provinces and Berar made over 90 per cent of its loans in that year to individuals, making it indeed, as the Reserve Bank pointed out, 'almost a commercial institution', though it latterly increased its finance to crop-loan societies.[129] The general tendency now is for state co-operative banks not to lend directly to individuals, even though the figures for 1961–2 represented an increase over the previous year. Thus, the loans outstanding against individuals and others in 1961–2 totalled Rs 4·67 crores as compared with Rs 3·89 crores in the previous year. The outstandings of advances to individuals and others made by the Maharashtra State Co-operative Bank came to only Rs 10·03 lakhs as against total loans outstanding at Rs 45·40 crores.

The advances of state co-operative banks in 1961–2 totalled Rs 256·29 crores and the loans outstanding at the end of the year amounted to Rs 196·51 crores. The amount of overdues rose from Rs 6·97 crores in 1960–61 to Rs 8·10 crores in 1961–2, even though the percentage of overdues in relation to outstandings fell slightly from 4·18 to 4·12 in the same period.

The apex banks in some states, notably in Bombay and Madras, in the past interested themselves in developing consumers' stores by loans and subventions; in Bombay the apex bank took an interest also in fostering marketing and industrial societies.[131] In Bihar and Orissa the apex bank once contributed towards the cost of training classes for managing committee members.[132]

The Reserve Bank's suggestion is well made that the apex banks, 'instead of venturing too far in the sphere of commercial banking should be in a position to explore avowedly co-operative channels of investment', thereby fulfilling their specific function as the apex institutions for the movement in the states concerned.[129]

The supervisory function of state co-operative banks, discussed in connexion with the need for supervision of their central banks' working, is one which calls for concerted development.

The state co-operative bank's chief function being to serve as the balancing centre for all subordinate co-operative societies, large fluid resources are of course necessary. A certain percentage of deposit liabilities must be kept in cash. The Reserve Bank had set 10 per cent as the proper minimum for co-operative banks.[133] In addition, readily realizable assets such as government and other approved securities must be kept, up to a given percentage of current deposits or of fixed deposits falling due in the near future, the percentage varying somewhat from state to state. Subsequently, in 1952 the Reserve Bank, in consultation with its Standing Advisory Committee on Agricultural Credit, laid down the standards of fluid resources to be maintained by the apex and central co-operative banks and the form in which such resources should be kept. The Maclagan Committee tentatively recommended that apex banks be required to keep liquid assets to cover half the total of fixed deposits falling due for repayment within four months, or one-third if the apex bank maintained the liquid resources of all central banks.[134] It further thought that deposits held at call should be covered by fluid resources amounting to at least 75 per cent of their total amount, except in Bombay, where the special conditions were held to make 40 per cent sufficient.

In practice, at a time like the present, when loan demand has greatly increased and repayments may not always be regular, the state co-operative banks have to be extremely vigilant in keeping up to the Reserve Bank's standard of fluid resources to be maintained by them. In 1961–2 the

total investments of state co-operative banks, apart from loans, came to Rs 43·71 crores as against Rs 39·13 crores in the previous year. Investments in government and other trustee securities stood at Rs 26·19 crores.

At the moment credit accommodation is the most pressing problem of the state co-operative banks. In the past, inter-lending among the apex banks has been common, but this is not altogether free from risk. The Reserve Bank is their natural recourse and they have been depending very largely on this source.

The Reserve Bank of India Act permits different types of accommodation to state co-operative banks. Under section 17(2)(a) of the Reserve Bank of India Act, the Bank can purchase, sell and re-discount the bills of exchange and promissory notes of state co-operative banks arising out of *bona fide* commercial or trade transactions of 90 days maturity. Under sections 17(2)(b) and 4(c), the Bank can re-discount or make advances to state co-operative banks against bills of exchange and promissory notes, maturing within 15 months, drawn for the purpose of financing seasonal agricultural operations or the marketing of crops. A wide interpretation has been given to the terms 'agricultural operations', 'crops' and 'marketing of crops' to include mixed farming activities (i.e. activities undertaken jointly with agricultural operations) and the processing of crops, prior to marketing, by agricultural producers or any organization of such producers. Under section 17(4) the Bank can make loans and advances repayable on demand or on the expiry of fixed periods not exceeding 90 days against trustee securities (which include debentures of land mortgage banks), bills of exchange, promissory notes which are eligible for purchase or re-discount by the Bank or which are fully guaranteed as to the repayment of the principal and payment of interest by a state government, and promissory notes of state co-operative banks supported by documents of title to goods, such documents having been transferred, assigned or pledged to the bank concerned as security for a loan or advance made for *bona fide* commercial or trade transactions or for the purpose of financing seasonal agricul-

tural operations or the marketing of crops. Loans to state co-operative banks for seasonal agricultural operations and marketing of crops are charged a concessional rate of 2 per cent below the Bank Rate, which is now 6 per cent. Recent amendments, especially those introduced since the Rural Credit Survey Committee's Report, have given wider powers to the Reserve Bank to provide funds to the co-operative credit structure. These will be referred to in the concluding chapter. It may, however, be noted here that the Bank is now empowered to give medium-term loans for periods ranging from 15 months to 5 years to state co-operative banks and also short-term loans up to 12 months for financing the production or marketing activities of approved small-scale and cottage industries.

In the past the apex banks generally did not avail themselves adequately of this recourse, only those of Bombay, Sind (now in Pakistan) and the United Provinces having taken loans from the Reserve Bank before 1948, the Madras Provincial Bank having been granted a large loan in 1948. This can be assigned to a number of causes, of which their past relative independence of financing agencies was only one. Another was no doubt the inability in many cases, due to lack of licensed warehouses, to furnish negotiable warehouse receipts. The Reserve Bank also restricted its lending in the past to A or B class institutions, feeling responsible, as 'the bankers' bank', for the development of sound banking practices. No one could question the genuine eagerness of the Reserve Bank's Agricultural Credit Department especially to serve the co-operative movement. An earlier Chief Officer of the department, showed his concern for the advance of the movement on sound lines when he wrote, 'Advances to all and sundry would only amount to putting a premium on inefficiency'.

If the Bank's anxiety related only to the safety of its advances it should not, of course, mind granting loans under good cover without any thought about the condition, character or nature of the borrower; but when the borrower happens to be a co-operative institution the Bank is anxious to see that the borrower can manage the funds properly and comes to no harm from the

loan taken. It would not be advisable to encourage bad and indifferent societies incapable of sound administration to play with large funds and come to grief thereby.[135]

The Reserve Bank further requires the benefit of its concession rate of 4 per cent (formerly 2½ per cent) to be passed on in a lower lending rate to central banks and societies.[136] Further, state co-operative banks wanting financial accommodation from the Reserve Bank must maintain with it cash balances representing a certain ratio of demand and time liabilities, the requirement being just half the percentages previously required of scheduled banks and claimed to be necessary as a contribution to the Reserve Bank's resources as the apex bank of the country.[133] This should work no hardship as these amounts would form part of the cash which a state co-operative bank should in any case keep against its deposit liabilities.

The Reserve Bank also extends to state co-operative banks joining its scheme of financial accommodation free remittance facilities for the transfer of funds between accounts maintained by different state co-operative banks in different offices of the Reserve Bank, treating their affiliated central banks for such remittances as if they were branches of the state co-operative banks.

Recent developments in the role of the Reserve Bank, as financier, adviser and co-ordinator in the sphere of co-operation and rural credit, will be discussed in the last chapter. But it may be mentioned that the credit limits for short-term loans for seasonal agricultural operations and marketing of crops granted to state co-operative banks at a concessional rate, by the Reserve Bank, stood at Rs 164 crores on 30 June 1963 as against Rs 138 crores in 1961–2.

In the past government assistance to the state co-operative banks had not been necessary to any considerable extent in most of the old provinces. The government, however, had to subsidize the apex bank in undivided Bengal heavily for years in connexion with its loss in the failure of the jute societies, and also in Hyderabad and Mysore and elsewhere, where the rehabilitation of the movement had been undertaken, government support had been required on a large

scale. The tendency to lean on the government seems to have grown very much in recent years. The Madras Provincial Bank required a government loan in 1946–7 for the first time, but paid back the Rs 200 lakhs entirely.[137] State governments now contribute to the share capital of state co-operative banks by borrowing from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund. This is but a continuation of the trend since 1951 when, for most of the newly formed state co-operative banks, government subscription to share capital was a usual feature.

Now, when deposits are being eagerly sought, there is the possibility of friction between the apex and central banks in connexion with competition for deposits; such competition had even arisen in past years, in Bombay, Assam and Bihar and Orissa.

Corresponding to the normal credit statement of the primary societies is the advance fixing of the annual credit limit of each central bank, which the Reserve Bank recommended to eliminate delays in disposing of loan applications.[138] Something akin to this has long been the practice in Bombay.[139] Such limits as are proposed can be computed on the basis of balance sheets, profit and loss statements, audit notes and recent annual reports. The central banks can then draw promptly and as frequently as they require up to the sanctioned limit.[138]

The management costs of the state co-operative banks, it may be noted, averaged 0·40 per cent of their working capital in 1961-2. The conduct of any state co-operative bank is serious business, calling for the best men available as directors of such institutions. Amateur banking, no doubt unavoidable in the majority of primary societies still, has no place in the apex co-operative institution of a state. It should not be possible at any stage of the movement to find such a situation as the Banking Enquiry Committee (1929-30) found in Assam—that there was no one with banking experience on either the directorate or the staff of the apex bank.[140]

At least as serious a need of managing committee members of the apex co-operative institution of a state is that

of a high sense of responsibility. It has happened that dividends have been declared by such a bank when its overdues have been larger than its probably realizeable assets. This, in the absence of an adequate bad and doubtful debts fund, amounted, of course, to paying dividends out of capital, a reckless proceeding in any case but particularly conscienceless in an institution presumably devoted to co-operative interests.

As in the case of the central banks, the interest rates of the apex banks have declined greatly since 1929-30, though in some states they are probably still too high to permit the central banks and the primary societies to reduce their rates to the desirable level. A differential rate was once charged in Bombay between primary societies, on the basis of their comparative creditworthiness, and between central banks and primary societies in the former's favour, so that they can lend to primary societies at the same rate as the apex bank. Obviously the central banks could not compete on fair terms with the apex bank, with its larger resources, without this concession. Their interest was further safeguarded by the requirement that the permission of the central bank was necessary for an urban society in its territory to borrow from the apex bank or a bank outside the movement. These arrangements are not in existence now. According to the present position in Maharashtra, the usual rate of interest of primary credit societies was $7\frac{13}{16}$ per cent, the data relating to 1961-2.

State co-operative banks generally are subject to the requirement that 25 per cent of their net profits must go to the reserve fund. The profits of all the 21 state co-operative banks in 1961–2 came to Rs 2·04 crores as compared with Rs 1·51 crores in the previous year. In 1961–2, all the state co-operative banks worked at a profit. In West Bengal, the rehabilitation of the apex bank is based substantially upon sizeable government aid. Overdues of some banks also increased appreciably. For example the overdues, as a percentage of outstandings, rose from 21·05 to 26·10 in Bihar and from 2·18 to 13·80 in Rajasthan between 1960–61 and 1961–2.

Restrictions on dividends in the various states of course apply no less to the apex than to the central banks. The usual dividend on shares ranged from 2½ per cent in Mysore and Punjab to 5 per cent in Maharashtra and 9 per cent in Madras. The sharing of a portion of the profits with affiliated societies in terms of the amount of interest paid to the apex bank during the period, a practice early introduced in Bombay,[141] has much to commend it. But this practice is no longer in force in Maharashtra since the fixing of the maximum rate of dividend at 6¼ per cent in respect of all co-operative societies.

The Saraiya Committee suggested government subsidies to the apex banks, suitably reconstituted where necessary, in lieu of starting the Agricultural Credit Corporation proposed by the Gadgil Committee. The same amounts which would be necessary for the latter would enable them to discharge the functions contemplated for the corporation, it was claimed, with the added advantages that the apex banks were already functioning so that delay in organization would be saved, and that the greater number of creditworthy agriculturists would in time be brought into the co-operative fold.[142]

This proposal was adopted in Bombay, where the government in the summer of 1948 ordered the reorganization of the apex co-operative bank on a federal basis and required it to assume, with government subsidies if needed, the responsibility for organizing credit for creditworthy borrowers throughout the state. In line with the Co-operative Planning Committee's recommendation, the Bombay Government further announced its intention to subscribe to the apex bank's share capital up to Rs 50 lakhs, matching the amount subscribed by individuals and co-operative societies. The government's dividend in excess of 3 per cent is to go to a special stabilization reserve of the apex bank.[143] Amounts contributed by the government to the share capital of the apex bank after 7 March 1952 carry interest at 3½ per cent. The total paid-up share capital of the Maharashtra (previously Bombay) State Co-operative Bank on 30 June 1962 amounted to Rs 3·87 crores out of

which Rs 1·43 crores were held by the state government, Rs 1·96 crores by central societies, Rs 31·99 lakhs by primary societies and Rs 16·34 lakhs by individuals and others.

LAND MORTGAGE BANKS

The necessity for separating the business of long-term credit from the short-term and medium-term accommodation which represents the proper field of the primary credit societies was generally recognized by 1930. It is still the avowed policy to keep them separate.

The inadequacy of the resources of primary societies and the unfairness of tying up a large amount in a loan to an individual when others were responsible for his debts were mentioned in 1930 by the Bombay Banking Enquiry Committee, which also claimed that mortgage credit sapped the sense of personal responsibility on which unlimited liability rested,[144] the last consideration having been flouted in practice in Bombay legislation even for ordinary credit societies.

That Banking Enquiry Committee's objection to primary societies undertaking the provision of long-term credit applies with almost equal force to central banks. The deposits which are their chief capital dependence are usually for a shorter term than the cultivator needs for loans for clearing the slate of old debts or undertaking the improvement of his holding.

Long-term loans having got the movement into difficulties in several of the old provinces and states, and the need for long-term finance for debt-redemption continuing acute, essays were made with land mortgage banking, which had proved so successful in Germany and elsewhere.[145] An attempt was made in Punjab as early as 1920,[146] but was not very successful, due largely, it is claimed, to the depression, with falling land values, and to the handicap of the Land Alienation Act in that province.[147] A central land mortgage bank, viz. the Punjab State Co-operative Land Mortgage Bank, was registered in Punjab after parti-

tion in February 1958. A central land mortgage bank was set up in Assam in November 1955. New central land mortgage banks have also been established in Bihar and West Bengal.

Successful land mortgage banking in India really dates back to 1929, when the Central Land Mortgage Bank was established in Madras to centralize the issue of debentures and to co-ordinate the working of primary banks.[147] The Madras Co-operative Central Land Mortgage Bank has a good record of useful activity, thanks partly to active assistance from the government, which has fully guaranteed its debentures as to both principal and interest. The strategic location of the primary banks in the irrigated tracts has doubtless also played its part, while apparently leaving many agriculturists in the frequently dry areas out of the picture. Careful management, good land records and the absence, in the areas of most banks, of restrictions on the alienation of land have also been favouring factors. That bank has followed the practice of careful evaluation of lands taken as security, has adjusted the period of loans to that of debentures and has fixed instalments for repayment according to the borrower's repaying capacity. A sinking fund for debentures is provided by that bank as well as by the Maharashtra State Co-operative Land Mortgage Bank, the borrowings under debentures amounting to Rs 7·36 crores in Maharashtra as compared with Rs 9·53 crores in Andhra Pradesh, Rs 12·04 crores in Gujarat, and Rs 10·36 crores in Madras in 1961–2. The total debentures of all the 17 central land mortgage banks in circulation in 1961–2 came to Rs 47·74 crores, and their sinking fund investments totalled Rs 10·92 crores.

Debentures are the chief source of land mortgage capital. These are guaranteed by the state governments concerned with regard to the repayment of the principal and payment of interest. State governments, notably in Madras and Andhra Pradesh, have given short-term accommodation to central land mortgage banks to enable them to accumulate mortgages and issue debentures on the security of such mortgages.

State assistance has sometimes, as in Madras[148] and Andhra Pradesh, taken the valuable form of administrative help in land valuation as well as in connexion with debentures, not only by guaranteeing interest and principal, but also by recognizing them as trustee securities or by introducing the security in the market, where necessary, by the investment of public funds in the issue.[149] Grants towards management expenses have been given in Madras.

In the past, where the instalments fixed by Debt Conciliation Boards carried no interest, there was little incentive for debtors to turn to a land mortgage bank to pay off their debts in full, unless the creditors would agree to a further reduction of their scaled-down claims for the sake of a lump-sum payment. This avenue of business in undivided Bengal and in the old Central Provinces and Berar, especially, was found unpromising.[150] In the old Bombay State an effort was made in the past to link the working of the Agricultural Debtors' Relief Act with the land mortgage banks.

Land mortgage banks are organized on a limited liability basis. The period of loans is usually fixed at 20 years though recently the tendency has been to grant loans of shorter duration, notably in Andhra Pradesh and to some extent in Madras. In Andhra Pradesh, the practice recently has been to provide loans for productive purposes for shorter periods, e.g. eight years and 12 years, the maximum being 15 years.

The Royal Commission on Agriculture accepted the principle of basing the borrowing power of members on a multiple of their holdings in the share capital,[151] the multiple varying from province to province.[152] In some areas a maximum in rupees was fixed for the loan. The maximum has sometimes been a given multiple of the land revenue.[153] Fifty per cent of the value of the land is accepted in several states as the maximum that can be lent by a land mortgage institution. In Madras, in respect of wet lands having a permanent source of irrigation, garden lands and dry irrigated lands growing crops other than plantation crops, the maximum loan permissible is 50 per cent of the value of

the land. Loans up to 35 or 45 per cent of the value of the property are allowed on rain-fed lands. Sureties have also been required in some states, in addition to the mortgage security.

The rate of interest on advances made by central land mortgage banks ranged from 3 to 5½ per cent in Andhra Pradesh and 1¾ to 7¼ per cent in Maharashtra. The rate was 5½ per cent in Madras, 7 per cent in Orissa and 5½ per cent in Mysore. The lending rate of the primary land mortgage banks was 5½ to 6½ per cent in Andhra Pradesh, 9⅜ per cent in Assam, 3¼ to 8¼ per cent in Maharashtra, 7½ to 9 per cent in Uttar Pradesh, 8 per cent in West Bengal and 7½ per cent in Mysore. Even in Madras the rate was 6½ per cent, still higher than what the Gadgil Committee recommended in proposing that the government give the subsidies necessary to make possible a 4 per cent rate to the agriculturist for long-term finance.

In some states no dividend could be paid on shares; in Madras the usual dividend was 5¼ per cent for the central and between 2 and 5 per cent for the primary societies. In Maharashtra it was 3½ to 6 per cent for central and $1\frac{9}{16}$ to 6 per cent for primary societies.

Emphasis is being placed now on land mortgage banks issuing small loans. The Madras Committee recognized small loans as more expensive for the bank, but rightly insisted that the small landholders were as much in need of help from mortgage banks as others.[154]

A frequent complaint against land mortgage banks is the delay in connexion with loan applications, which the Madras Committee said had become a byword.[155] The system, they said, 'is sound but lacks speed',[156] a difficulty which can hardly be overcome entirely, in view of the meticulous care required in assessing the value of the immovable security offered, examining the title to the land and determining the instalments in terms of repaying capacity.

Not only have the land mortgage banks in some states summary powers for the recovery of defaulted instalments,[157] but the rise in prices of agricultural products had a markedly beneficial effect in the past. At present, however, land

mortgage banks in general are faced with the problem of finding resources for their business.

Obviously, a primary land mortgage bank which has not enough business to make ends meet cannot be continued indefinitely. The proposal had been made in several areas to amalgamate such uneconomic units with the local central bank. This was done in one case in the old Bombay State and in several cases in the old Central Provinces and Berar.[158] The margin of subsistence for a primary land mortgage bank was determined by the provincial bank in the latter province to be a minimum of 50 borrowers and a minimum outstanding loan of Rs 50,000.[159] Those falling below it were slated for amalgamation with central banks.

The Gadgil Committee approved the supplying of long-term and short-term finance by the same agency, but this is a solution which experience shows to be fraught with risk, unless medium-term and long-term loans can be more rigorously separated from short-term loans than has been usual in the past. The Nanavati Committee proposed the supplying of long-term finance by the central financing bodies as agents of the provincial land mortgage bank, which might be feasible.[160] The All-India Rural Credit Survey Committee was of the view that the apex and central co-operative banks, with their affiliated societies, should deal only in short-term loans and medium-term loans up to five years. Loans for periods above five years should be granted by land mortgage banks. The Committee underlined the fact that past experience pointed to the desirability of having two separate institutions for dealing with short-term and medium-term agricultural credit on the one hand and long-term credit on the other, especially when it was remembered that land mortgage banking was a highly specialized business.

Short of ultimate abandonment of this important sector of the co-operative attack on the small man's problems, productive uses for the land mortgage banks' funds must be found. Besides debt redemption, generally stressed until a few years ago, loans may well be given, as the Gadgil Committee and the Rural Credit Survey Committee re-

commended, for land improvement, e.g. the sinking of wells, bunding operations, etc. This development on a large scale presupposes, however, a proper co-ordination of state policy. If it is felt that the co-operative land mortgage structure is worth keeping, direct loans for land improvement at rates lower than a land mortgage bank can offer without loss should not be made by the government in areas served by land mortgage institutions and should be abandoned elsewhere with the spread of land mortgage banking to other areas.

Loans for land purchase, subject naturally to the limits of individual holdings being set in various states, offer another outlet for the funds of land mortgage institutions.

The financing of rural housing societies seems to offer also a tremendous field for the expansion of the business of land mortgage banks. Informed and responsible propaganda for such projects as well as for land-improvement schemes would seem to be in order for the land mortgage institutions or the Co-operative Department through its staff or through honorary workers, but full co-operation for advice and consultation should be available to the land mortgage banks from the other government departments —Agriculture, Industries and Public Works—which are in a better position to know what improvements to encourage.

Better co-ordination between the land mortgage banks and other co-operative institutions, as well as between them and all other agencies for the improvement of the cultivator's lot, has been urged by the Reserve Bank. Lack of such co-ordination with village credit societies means, it has pointed out, difficulty for the land mortgage banks in maintaining contact with their borrowers.[161] That land mortgage banks should loan to members of a primary society only after consulting the latter, as the Travancore Co-operative Committee recommended,[162] is obviously important.

The Central Banking Enquiry Committee recommended the further establishment of land mortgage banks on a co-operative basis wherever there was a reasonable pros-

pect of their working successfully under the local conditions,[163] and the development of well-organized joint-stock mortgage banks for the benefit of the numerous classes of landowners who could not be adequately served by the co-operative credit organizations.[164] In some of the old Indian States joint-stock land credit institutions had been organized with state help and patronage. Travancore had such a bank.[165] This institution was later placed under liquidation and its assets and liabilities were transferred to the Kerala Co-operative Central Land Mortgage Bank which was set up in October 1956.

A brief reference may be made in conclusion to the general position of co-operative land mortgage banks in India in 1961–2. In that year there were 17 central land mortgage banks in the country, which issued loans to the tune of Rs 14·75 crores. The loans due at the end of the year to the central land mortgage banks amounted to Rs 47·90 crores out of which a sum of Rs 1·57 crores was overdue. Out of the total debentures in circulation of the central land mortgage banks, amounting to Rs 47·74 crores in 1961–2, Rs 31·93 crores were accounted for by the central land mortgage banks of Andhra Pradesh, Gujarat, and Madras.

There were 536 primary land mortgage banks in 1961–2 spread over 14 states, with a membership of 852,293. They provided loans to the extent of Rs 12·59 crores. The loans due by individuals at the end of 1961–2 to primary land mortgage banks stood at Rs 35·28 crores, of which Rs 0·89 crore were overdue. The rates of interest charged to the ultimate borrower by the primary land mortgage banks generally ranged from 5½ per cent to 10 per cent.

Land mortgage banking has reached a fair measure of development in Madras, Andhra Pradesh, Gujarat, and Maharashtra.

In Madras, the Co-operative Central Land Mortgage Bank issued loans amounting to Rs 2·66 crores to its 103 affiliated primary land mortgage banks in 1961–2. The bank issued fifteen-year debentures for the first time in 1955–6, representing a departure from the usual practice of issuing twenty-year debentures. The borrowings of the

Madras Co-operative Central Land Mortgage Bank amounted to about Rs 11 crores of which Rs 10 crores represented the value of debentures in circulation. The loans outstanding against primary land mortgage banks at the end of 1961–2 came to Rs 8·85 crores. The Sinking Fund investments totalled Rs 2·67 crores. Apart from government aid of various types indicated earlier, financial assistance was given to primary land mortgage banks in the state to enable them to employ additional staff for the expansion of their business under the co-operative development plan.

In Andhra Pradesh the Co-operative Central Land Mortgage Bank has made a concerted effort to provide loans for developmental purposes. The loans issued by it in 1961–2 amounted to Rs 3·34 crores of which Rs 1·64 crores were sanctioned for the improvement of land. As in Madras, the state government has been assisting the Central Land Mortgage Bank in various ways, such as guaranteeing its debentures, provision of staff and short-term loans, etc. Of the total working capital of the bank, which amounted to Rs 12·24 crores in 1961–2, Rs 9·53 crores consisted of debentures outstanding. The primary land mortgage banks in Andhra Pradesh numbered 114 in 1961–2 and the loans issued by them in that year totalled Rs 3·31 crores.

In Maharashtra, the State Co-operative Land Mortgage Bank issued loans totalling Rs 3 crores in 1961–2; the outstandings of the loans due to the bank at the end of that year came to Rs 8 crores; the debentures in circulation stood at Rs 7·36 crores. The policy of the bank is to encourage loans for productive purposes. Apart from continuing to guarantee the debentures of the Provincial Co-operative Land Mortgage Bank, the state government sanctioned a subsidy of about Rs 47,000 for the period 1 January to 31 December 1955, representing the difference between the bank's economic rate for lending and the lending rate of the government on loans for improvement of land, digging of wells, etc. It is reported that the amendment in 1955–6 of the Bombay Tenancy and Agricultural Lands Act 1948, according to which the tiller becomes the owner of the land on payment of a price to be determined in accordance with

the provisions of the Act, has affected the past and future loans of the bank. Loans are now granted to actual tillers according to a new formula in terms of which the lands should be cultivated personally; loans cannot be given on the security of more than 48 acres; and the loans should be granted to equal half of the amount calculated on the basis of average of sales for 12 or six years or 120 times the assessment. The government came forward to guarantee losses up to 2 per cent if the loans were granted in accordance with this formula.

There were 27 primary land mortgage banks in Maharashtra in 1961–2 which issued loans amounting to Rs 3·46 crores in that year. Their activities were reported to have been adversely affected by the tenancy legislation and the formula for loaning adopted by the State Co-operative Land Mortgage Bank.

Land mortgage banking is prominent in Gujarat. The outstandings of the loans issued by the Gujarat Central Co-operative Land Mortgage Bank came to Rs 11·98 crores in 1961–2. The advances made by the bank in the same year amounted to Rs 3·14 crores, of which Rs 2·09 crores were for the purchase of machinery. The Government of Gujarat has come forward with substantial assistance to the central land mortgage bank not only by guaranteeing its debentures and giving it funds in connexion with the land reforms, but also by contributing to its share capital and providing staff, and by placing at its disposal the machinery of the Revenue Department for recovery of loans granted under the land reforms legislation in the old Saurashtra region.

Apart from the instances referred to above, land mortgage banking in India is almost undeveloped. The Rural Credit Survey Committee commented that 'it may be said of the land mortgage banking system of India that, at its best, it raises inadequate funds in a manner ill-related to demand and usually lends them in a manner unco-ordinated with development; acts as if prior debts, and not production, had prior claim on its attention, reaches mainly the large cultivator and reaches him late'.

Under the co-operative development plans of the Third Five-Year Plan, the amount of long-term loans (loans outstanding) is expected to total Rs 150 crores by the end of 1965–6. The co-operative development plans of the states contain provisions for the organization of new primary land mortgage banks and for the strengthening of the existing ones. We have seen earlier that some states have recently set up new central land mortgage banks. The emphasis is now placed on loans for productive purposes as contrasted with loans for clearing prior debts, which till recently accounted for a dominant part of their activities. Following this, central land mortgage banks are attempting to issue debentures of shorter duration to match their loans for productive purposes such as development of land. A scheme for assisting central land mortgage banks to issue 'rural debentures' primarily intended for the rural areas was initiated by the Reserve Bank in November 1957. It may be noted that the Reserve Bank is now in a much better position than it was previously to assist land mortgage banks. Apart from contributing to the debentures of central land mortgage banks where these have been guaranteed by the state governments, up to 20 per cent of the issue or the shortfall in public subscriptions, whichever is less, and treating such debentures on a par with government securities for purpose of accommodation under section 17(4)(a) of its Act, the Reserve Bank can now lend to state governments from its National Agricultural Credit (Long-term Operations) Fund to enable them to take up shares of land mortgage banks. The Bank can also give long-term loans up to twenty years direct to central land mortgage banks, on government guarantee, from the Long-term Operations Fund.

THE RELATIONSHIP OF THE RESERVE BANK OF INDIA TO THE MOVEMENT

The setting up of the Reserve Bank of India under the Act of 1934 filled a long-felt need in the financial structure.

Its actual and potential contribution in the monetary field has been discussed in connexion with the state co-operative banks which form the link between it and the other central and the primary co-operative societies.* The picture of the co-operative movement, however, would not be complete without consideration of the very valuable service which it is receiving from the Agricultural Credit Department which the Reserve Bank set up in April 1935, simultaneously with its Issue and Banking Department.[166] The Reserve Bank of India Act called for the creation of such a special department with two functions:

(*a*) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Governments, state co-operative banks and other banking organizations;
(*b*) to co-ordinate the operations of the Bank in connexion with agricultural credit and its relations with state co-operative banks, and any other banks or organizations engaged in the business of agricultural credit.

Its shepherding of the not always docile flock of co-operative banks involves, as mentioned, inspections and a careful study of the balance sheets of state and central banks, and the prompt calling of departures from sound banking practice to the attention of the proper authorities; if the caution goes unheeded, the reminder, it is understood, can be both firm and pointed. The balance sheets of a few primary societies are called for by way of test sampling, but the examination of the balance sheets of all primary credit societies, for which their own central and state co-operative banks hardly find sufficient time, is obviously beyond the Agricultural Credit Department's numerical strength, valuable as it would be.

No less important a service has been the functioning of the Agricultural Credit Department as a clearing-house of information on co-operative practice and achievements throughout the country.[167] It is increasingly consulted by governments, Registrars and co-operative banks[168] as well as research workers, and its spirit of helpfulness and genuine co-operation cannot be too highly praised. It was called in consultation by co-operative inquiry committees, e.g. that

* See pp. 286 ff.

in Berar, at whose request the then Chief Officer of the department met the committee at Nagpur in 1939 and prepared a note embodying his suggestions.[169] The Chief Officers of the department have taken a keen interest in the fostering of the co-operative movement, touring different states to visit representative co-operative institutions, to observe their working and to get members' views at first hand. Registrars being only human, there may be a temptation to put the best foot forward in planning the Chief Officer's tour of their state, but a veteran co-operative official doubtless knows how to get the real picture in the areas he visits.

The Agricultural Credit Department has made numerous studies, including the financing of agriculture by central banks and governments in foreign countries, cattle and crop insurance, consolidation of holdings, licensed warehousing, and problems of audit, supervision and inspection of co-operative societies,[170] state aid to the co-operative movement etc. The Reserve Bank initiated the monumental All-India Rural Credit Survey in August 1951. The dynamic role played by the Bank in the context of the All-India Rural Credit Survey Committee's integrated scheme of rural credit will be discussed in the last chapter. The Reserve Bank's contacts with the Co-operative Departments and co-operative organizations have been strengthened with the opening, since 1957, of regional offices of the Agricultural Credit Department in various centres.

Besides its several interesting bulletins embodying the results of its studies, its manuals of sound banking practices, etc., the Agricultural Credit Department brings out annually the indispensable *Statistical Statements Relating to the Co-operative Movement in India*, formerly published by the Department of Commercial Intelligence and Statistics. Without derogation from their great value, a few suggestions may be offered for consideration in connexion with future issues of these, which may, if adopted, make them more readily and intelligently usable.

(1) That loans for which extensions have been granted and those for which extensions have been renewed be differentiated from loans outstanding and

not yet due, which would indicate the extent to which nominally short-term loans are, in effect, medium- or long-term ones.

(2) If loans outstanding can be broken down into principal and interest due, another important clue to the soundness of the movement will be available.

(3) That a more detailed breakdown of primary societies by predominant functions would be very desirable; the average turnover and profits would, for example, be interesting figures for purchase and sale societies and for consumers' stores.

(4) That the number of inactive societies in each state be indicated and not only the number of societies under liquidation.

(5) That the cost of working of the movement as a whole in each state be given, broken down to show the average cost per society, per member and per inhabitant; the share in that total cost borne by the state government and the percentage that it represents of the revenue expenditure, the government's contribution being broken down in turn, if possible, to show the cost of the Co-operative Department itself and of government subsidies and loans in respect of societies of various types.

(6) That an annual interpretative analysis be given in the shape of tables of significant percentages, or of state averages, like the illuminating one which appears in *Thirty Years of Co-operation in India*, the Reserve Bank's own compilation.

All this would of course add to the difficulties of preparing the *Statistical Statements*—difficulties which only one who has worked with the non-uniform, unco-ordinated and mostly unpublished annual reports of the Registrars throughout the country can fully appreciate. But the advantages would be great in enabling those responsible for the movement in the several states to compare its status in their own territory both with their own record in previous years and with that of other political divisions, and so to determine readily in what particulars their showing is relatively satisfactory and where their position needs strengthening. If the facts are to be compiled at all—and this is most necessary—why not present them also in a form in which their significance can be readily grasped? If no comparative interpretation of the figures is made, the state Co-operative Departments are working more or less in the dark, and a great waste of time and energy is involved in each having to make its own analysis of its comparative status, if indeed this is often done.

Busy and understaffed though many of the Co-operative

Departments are, there need be no compunction in including the data necessary for these analyses in the figures required of them by the Reserve Bank. It may be suggested that the compiling of such data by the Co-operative Departments would hardly involve as much work as the full statistical tables of specific institutions which are presented in appendixes to some of the Registrars' reports, which, however potentially useful to the statistical analyst, would seem incommensurate with their general value. An ounce of the pertinent is worth a pound of the merely informative of local interest, just as a house, however small, is worth more than a tremendous jumbled heap of bricks.

There has often been neglect in preparing and sending these figures as grist for the Reserve Bank's mill, and there has even been objection raised in the past to the requirement of too much paper work in the Registrars' offices.[171] Obviously red tape is to be avoided as much as possible and no unnecessary demands should be made on busy men, but the value of such interpretative analyses should be so obvious that there would be more willing and more intelligent co-operation than always in the past. A navigator at his busiest has time to take soundings in shallow water, and to consult his chart.

Such co-operation would also make possible the bringing out of more nearly current figures. Late figures are better than none, but they mean that tendencies requiring correction are not brought to light in time for prompt action. It is gratifying to note that there has been some improvement in this respect.

The suggestion may also be offered for the future that a comprehensive index would add to the accessibility of the wealth of information and the valuable suggestions brought together in the Agricultural Credit Department's admirable periodic *Review of the Co-operative Movement in India*.

Timely data are also of particular importance for watching various trends in co-operation with special reference to the working of the co-operative development plans of the states. A small committee set up by the Reserve Bank

has suggested interim reports on the working of these plans. The Government of India accepted the recommendation and in a circular letter in October 1957 called upon state governments to furnish quarterly reports of the progress made in their plans. But this scheme cannot succeed unless the Co-operative Departments have an adequate staff for the collection and sifting of the data.

CHAPTER V

EVALUATION AND PROSPECTS

SIXTY years have passed since the Indian co-operative movement was formally launched. What has it achieved ? And how far has it justified the high hopes of its early sponsors ? Are the inhibiting factors now so much to the fore in some states inherent in the movement itself, or can they be overcome by due diligence and effort ? These are still pertinent questions today. It is not putting it too strongly to say that co-operation has been on trial for its life in some sections, as in the old Central Provinces and Berar where, in the darkest days of the depression, a motion was actually made in the Provincial Legislature by a well-known politician of Berar, a former Minister whose portfolio had included co-operation, for the winding up of the movement there.[1] There have been times when the movement has been virtually dead on its feet or at least in a perilous state in Bihar, in Orissa, in Assam, in Bengal and the United Provinces, and in some of the erstwhile Indian States such as Hyderabad, Mysore and Travancore. It is still today in a very bad way indeed in some states such as Assam and Bihar, and it is going through the motions without accomplishing very much in several other states.

A critical evaluation is necessary of the present status of the movement, its external handicaps and internal weaknesses and what, in spite of these, it has been able to accomplish. The following table gives the comparative position of the movement in 1955–6 and 1961–2.

Chart I (p. 309) shows the growth in the number of primary societies. Among primary societies, the most important group consists of agricultural credit societies. There were 159,939 primary agricultural credit societies in India in 1955–6 with a membership of 7,790,850 and working capital of Rs 79·1 crores, as compared with 215,081 societies in 1961–2 with a membership of 19,572,000 and working

Item		1955–6	1961–2
Total number of societies		240,395	341,841
Membership of primary societies ..		17,621,978	37,835,619
Working capital of all types of societies	*Rs crores*	468·8	1,534·8
Loans advanced by primary societies ..	*Rs crores*	140·8	449·4
Profit earned by all types of societies ..	*Rs crores*	6·3	14·9

(SOURCE: Reserve Bank's *Statistical Statements*)

capital of Rs 325·3 crores. The loans advanced by primary agricultural credit societies in 1955–6 totalled Rs 49·6 crores as against Rs 228·3 crores in 1961–2.

Though numerically very much less significant, primary non-agricultural credit societies continue to maintain a decided lead over primary agricultural credit societies with regard to loan operations. Some figures of their operations may be given. In 1955–6 there were 10,003 primary non-agricultural credit societies which, with a working capital of Rs 85·7 crores, advanced Rs 72·1 crores, the relevant figures for the 159,939 agricultural credit societies being Rs 79·1 crores of working capital and Rs 49·6 crores of loans advanced. In 1961–2, the 12,477 primary non-agricultural credit societies had a working capital of Rs 164·9 crores as against Rs 325·3 crores for the 215,081 agricultural credit societies. In the same year, the primary non-agricultural credit societies advanced loans to the tune of Rs 161·6 crores, the corresponding figure for agricultural credit societies being Rs 228·3 crores.

The basic structure of the co-operative movement in India is the primary agricultural credit society. It still, alas, is very weak in most states, unable to provide even a bare minimum of efficient credit service to the cultivator. Table I (p. 444) shows, among other items, the percentage of the population affected by the primary agricultural credit societies. The all-India figure for 1961–2 is 21·7 per cent,

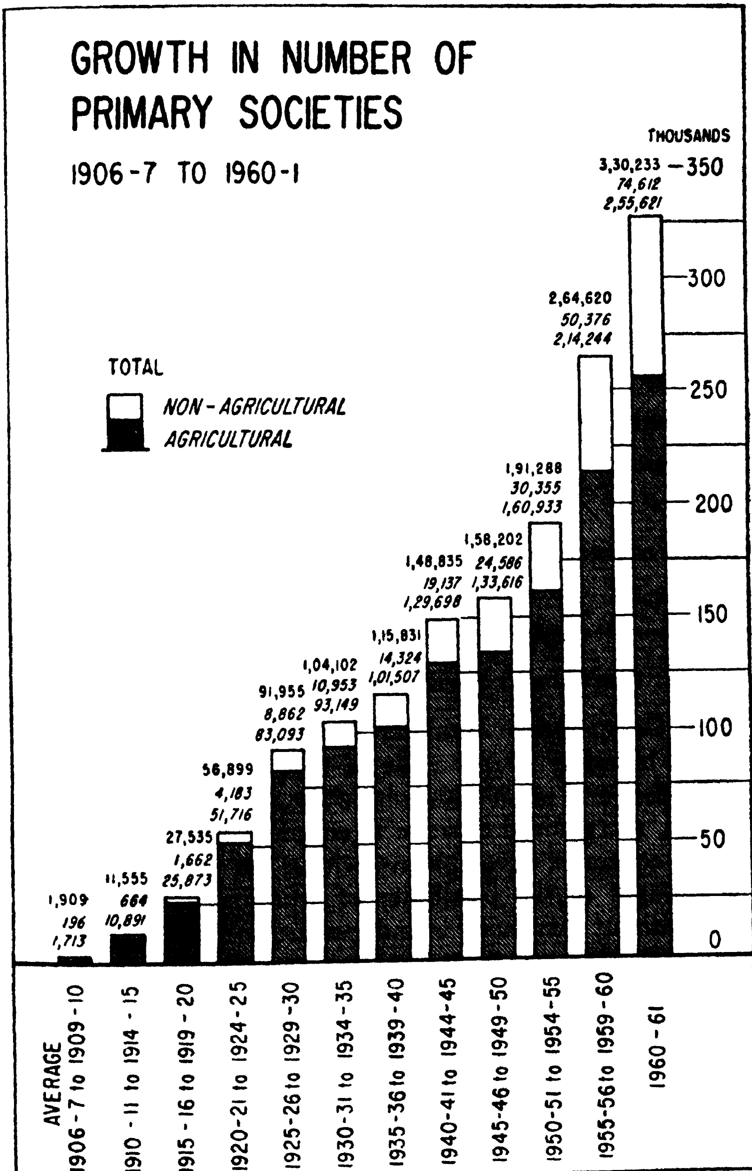
GROWTH IN NUMBER OF PRIMARY SOCIETIES
1906-7 TO 1960-1
TOTAL
NON-AGRICULTURAL
AGRICULTURAL
THOUSANDS
0
50
100
150
200
250
300
350
1,909
196
1,713
11,555
664
10,891
27,535
1,662
25,873
56,899
4,183
51,716
91,955
8,862
83,093
1,04,102
10,953
93,149
1,15,831
14,324
1,01,507
1,48,835
19,137
1,29,698
1,58,202
24,586
1,33,616
1,91,288
30,355
1,60,933
2,64,620
50,376
2,14,244
3,30,233
74,612
2,55,621
AVERAGE 1906-7 to 1909-10
1910-11 to 1914-15
1915-16 to 1919-20
1920-21 to 1924-25
1925-26 to 1929-30
1930-31 to 1934-35
1935-36 to 1939-40
1940-41 to 1944-45
1945-46 to 1949-50
1950-51 to 1954-55
1955-56 to 1959-60
1960-61

Chart I

and there is considerable variation between states. These figures, however, do not give an indication of the efficiency or effectiveness of the primary agricultural society in the various states served by it. A high figure of coverage of the population does not necessarily mean a better scale of effective operations. This is far from being the case. The following table shows salient average figures per agricultural credit society in 1955–6 and 1961–2 for the whole country.

Item	1955–6	1961–2
Membership	49	91
Paid-up share capital	Rs 1,051	Rs 3,190
Loans advanced	Rs 3,102	Rs 10,615
Overdues	Rs 935	Rs 2,926
Percentage of overdues to outstandings ..	25·0	24·5
Working capital	Rs 4,946	Rs 15,126

(Source: Reserve Bank's *Statistical Statements*)

The Co-operative Planning Committee (1946) set the goal of bringing 50 per cent of the villages and 30 per cent of the rural population within the ambit of the primary societies, reorganized to serve as centres for their members' general economic development, within ten years. Whatever one thought of the possibility of attaining it within this time, without sacrificing soundness in the foundations, the goal certainly represented a great desideratum. More ambitious targets were recommended by the First State Ministers' Conference on Co-operation held in New Delhi in April 1955. That conference recommended that the long-term goal should be 'the organization of rural business on a co-operative basis in such a way that, within 15 years, 50 per cent of the total business—credit, marketing, processing, etc., is co-operative'. Obviously, this target cannot be achieved unless the primary credit societies are efficient, economic units. As we have seen, this is far from being the

case now. The primary credit structure in general is very weak, inefficient and ineffective. The task, therefore, is to build it up into an efficient structure so that it can fulfil the tasks expected of it. In this context, an observer, Sir Malcolm Darling, has drawn pointed attention to the question of overdues and to the fact that in six states the increase in recoveries of agricultural credit societies in 1955–6 did not keep pace with the increase in advances. The comparative position of overdues of primary agricultural credit societies in some of the states is given below, in round figures:

State	Percentage of overdues to loans outstanding 1955–6	1961–2
Assam	16	71
Bihar	49	48
Maharashtra	32	29
Madhya Pradesh ..	25	29
Madras	20	10
Mysore	14	46
Orissa	25	20
Punjab	24	23
Rajasthan	20	45
Uttar Pradesh ..	18	12
West Bengal	36	29

In referring to the position of overdues in Bombay State, (which was later divided into Gujarat and Maharashtra) where the supply of credit to the cultivator 'has been much ampler than anywhere else', Sir Malcolm Darling has remarked that there is 'little cause to suppose that, as things are at present, larger loans will lead to improved recoveries. It may well be the reverse'.[2]

The problem of overdues, however, is not a new one. It

has bedevilled the movement for many years and, to an appreciable extent, it is a reflection of the internal weaknesses of the co-operative credit structure, and of external weaknesses such as the precarious nature of the agricultural economy and the cultivator's lack of supplementary sources of income. In the event of famine, flood or other natural calamities—such as have unfortunately been common in some areas—the cultivator finds himself unable to honour his obligations to his society on the due date. Further, in justice to the movement, its overdues should be compared with the overdues of loans for broadly similar purposes advanced to the cultivator by the government as *taccavi*. Figures regarding overdues of *taccavi* are not readily available for such a comparison, but it would appear that overdues are somewhat high. This is not, however, to belittle the problem of overdues of co-operative loans. It is undoubtedly a serious problem which needs unremitting attention on the part of the Co-operative Departments, co-operators, and officials of co-operative societies. A fall in agricultural prices may well lead to a serious situation regarding overdues and the sooner overdues are reduced to a reasonable level the better it will be for the stability of the movement. But the problem cannot be viewed in isolation, and it does not admit of a simple remedy.

Chart II shows the increase in working capital from different sources for the movement since 1906–7. In 1961–2 the grand total of the working capital of the movement was Rs 1,534·8 crores, as against Rs 468·8 crores in 1955–6.* Of the total working capital in 1961–2, paid-up share capital constituted 16·9 per cent; reserve and other funds 7·1 per cent; loans from co-operative institutions, the Reserve Bank, government and other sources 51·2 per cent; deposits from all sources 21·7 per cent and borrowings of land mortgage banks and societies 3·1 per cent. In 1955–6 the percentages were 16·5, 13·3, 26·8, 37·5, and 5·9 in the order mentioned above.

The movement is still predominantly, as it has been from

* These totals are likely to err on the high side, as there is a possibility of double-counting of resources.

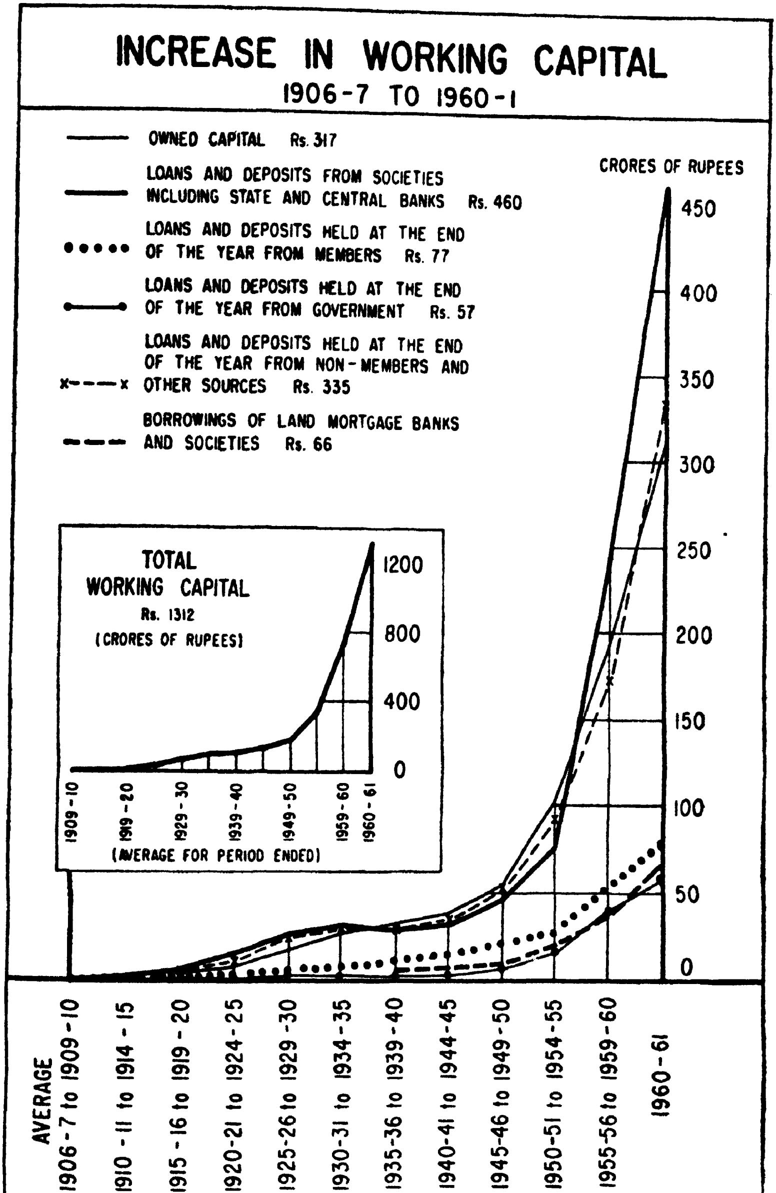
INCREASE IN WORKING CAPITAL
1906-7 TO 1960-1
OWNED CAPITAL Rs. 317
LOANS AND DEPOSITS FROM SOCIETIES INCLUDING STATE AND CENTRAL BANKS Rs. 460
LOANS AND DEPOSITS HELD AT THE END OF THE YEAR FROM MEMBERS Rs. 77
LOANS AND DEPOSITS HELD AT THE END OF THE YEAR FROM GOVERNMENT Rs. 57
LOANS AND DEPOSITS HELD AT THE END OF THE YEAR FROM NON-MEMBERS AND OTHER SOURCES Rs. 335
BORROWINGS OF LAND MORTGAGE BANKS AND SOCIETIES Rs. 66
CRORES OF RUPEES
450
400
350
300
250
200
150
100
50
0
TOTAL WORKING CAPITAL
Rs. 1312
(CRORES OF RUPEES)
1200
800
400
0
1909-10
1919-20
1929-30
1939-40
1949-50
1959-60
1960-61
(AVERAGE FOR PERIOD ENDED)
AVERAGE
1906-7 to 1909-10
1910-11 to 1914-15
1915-16 to 1919-20
1920-21 to 1924-25
1925-26 to 1929-30
1930-31 to 1934-35
1935-36 to 1939-40
1940-41 to 1944-45
1945-46 to 1949-50
1950-51 to 1954-55
1955-56 to 1959-60
1960-61

Chart II

the beginning, a credit movement, and still chiefly for the benefit of the rural population, although the urban societies, in financial strength, occupy a position of far greater relative importance.

The co-operative movement stands or falls by the soundness of the primary societies which are not only the *raison d'être* of the central and state co-operative banks, but the foundation on which the entire superstructure rests. It is realized that a quantitative measure of net achievement of the movement must fall far short of presenting the complete picture. The effect on the morale of co-operators does not lend itself to calculation in percentages, nor does the effort being put into educating members in co-operative principles, but the various ratios, percentages, and per member averages have a bearing on the soundness of the position in different parts of the country. Among the points brought out by analysis of the statistics for primary credit societies is that the movement is not on a satisfactory basis in the vast majority of states. In many states, even the central co-operative banks and the state co-operative banks are not strong and able to function as efficient units in the credit structure.

One may in conclusion refer to the significant finding of the All-India Rural Credit Survey that the private creditor—the professional moneylender, the agriculturist moneylender and the trader—still occupies a dominant role in the field of rural credit, supplying 70 per cent or more of it. The contribution of co-operatives was only 3·1 per cent, and out of this the larger part went to the bigger agriculturist and not the smaller cultivator. This is an index to the difficult and arduous task involved in the building up in the country of an efficient co-operative credit structure which is able to give credit to the cultivator, especially the smaller cultivator, in sufficient volume for agricultural production and marketing. The alternative is the creation of a different structure, other than co-operative. But this has to be ruled out as being impracticable. Only the co-operative form of organization can be thought of in any scheme or programme for the provision of institu-

tional credit and ancillary facilities to the millions of India's agriculturists. It should be added that in 1961-2, the borrowings of cultivators from co-operative societies formed 25·9 per cent of the total borrowings. This represents a significant increase over the percentage for 1951-2 which was 3·1.

HANDICAPS

So much for the present extent and general status of the movement in India. What are the extrinsic factors which have inhibited or retarded its optimum development ? The complexity of the problem is undoubtedly among the chief of these. Poverty and malnutrition, the widespread indebtedness which in many states tardy steps have been taken to relieve through debt relief legislation, the depressingly high percentage of illiteracy and the lack of business experience, uneconomic holdings and antiquated methods, inadequate transportation and storage facilities, the lack until recently of uniform standards of weights, measures and products, great price fluctuations, dearth of regulated markets, exploitation by moneylenders and middlemen—these are among the many facets of a problem that call for simultaneous attention, supplemented by far-seeing economic and social legislation. Valiant attempts are being made in these directions, but much remains to be done in them all. Some of these difficulties are shared by India and Pakistan with other countries, from whose experience there is much to learn, but it seems undeniable that in the sum total the difficulties which the co-operative movement has had to face on the Indian subcontinent are greater than those with which co-operation has had to contend in the several Western countries where it has had a spectacular success.

Even relieving the agriculturist of his burden of debt and making the credit necessary for current needs available at reasonable rates will not greatly benefit him, unless his income can be raised or his expenditure reduced. The

former involves consolidation of his holding, improvement of his land, by irrigation or otherwise, improvement of his methods of cultivation, encouraging the pursuit of one or more supplementary occupations, or enabling more profitable disposal of his products through co-operative marketing and processing societies. The reduction of expenditure involves sound systems of landholding and land revenue assessment, the availability of required supplies as well as credit at reasonable rates, the reduction of unnecessary expenditure on social ceremonies by a reform in public opinion, the encouragement of thrift in the form of savings accounts or insurance, and especially education, which will not only facilitate most of the foregoing objects, but will also help to safeguard the peasant against exploitation.

The difficulties of rehabilitating the artisan are only less complex, for he shares all these needs of the cultivator, except those that relate specifically to the soil, and has in acute form the problem of decent housing at reasonable rates. The industrial and agricultural labourers also want relief from indebtedness, controlled current credit at moderate interest, cheap supplies, reduced social expenditures, and education, but their most crying need is for a fair remuneration for their labour. Unfortunately, a general increase in the rewards of labour is largely outside the scope of the co-operative movement and must await the better organization of workers and the economic advance of the country.

These many facets of the problem complicate the task of the co-operative movement in India and emphasize the necessity for careful study of the situation and for concerted action. Sporadic attacks were made in the past in different states on all the aspects of the gigantic problem, but the relative ineffectiveness of scattering of effort is coming to be recognized more and more. The funds available to the movement, however, were regrettably limited; and the irrigation water that could make one field produce a rich harvest naturally made a comparatively poor showing spread over eight or ten.

Certain it is that the best hope of doing lasting good to

the beneficiaries of the movement lies in visualizing their problem as a whole and directing the co-operative attack simultaneously upon as many fronts as possible. Co-operation, as the late Sir Horace Plunkett pointed out, will succeed only as an integral part of a comprehensive agricultural policy.[3]

The Gadgil Committee prefaced their summary of recommendations with the warning that financial reconstruction could not be successful unless all the problems of agricultural economy were tackled as a whole; the attempt to raise a sound system of finance should be only a part of a general problem of reconstruction, to place the agriculturist producers in a state of normal solvency.[4] The Rural Credit Survey Committee emphasized that the principal recommendations forming their integrated scheme of rural credit were 'vitally related to one another' and together formed 'a unit of policy and action from which no main component may be removed without imperilling the whole'.[5]

Co-operation is not the panacea which it was once somewhat unrealistically hoped to prove. A veteran non-official co-operator like the late Dewan Bahadur H. L. Kaji, than whom there had been no more stalwart advocate of the de-officialization of the co-operative movement, conceded it to be obvious 'that the work so far done is not in any way adequate to the immensity of the problem. Nothing short of widespread state machinery will reconstruct the village and the villager. It is only when this objective has been achieved, to at least an appreciable extent, that voluntary efforts by the people themselves can make further headway with adequate grants and subventions from local boards and government.'[6]

It was perhaps inevitable up to a point that a trial-and-error method should have been relied on as the co-operative movement felt its way towards stability and effectiveness. But the errors have been expensive to too many of those whom the movement was designed to benefit, as well as to the credit of the movement as a whole. The government's delay in providing for debt redemption and land mortgage

banking played not a small part in the collapse of many societies which got beyond their depth in the attempt to meet these urgent needs. If the idea of planning which has been so much to the fore in recent years could have imbued earlier those responsible for the well-being of the country, many of the failures and much of the consequent suffering could perhaps have been avoided.

Another external factor which greatly handicaps the advance of the co-operative movement has been mentioned —the widespread illiteracy and lack of business experience. Reference has been made to the difficulty of finding literate villagers to serve as secretaries for co-operative societies. But even if a suitable secretary can be found, the illiteracy of the rank and file of the members makes it difficult to educate them in co-operative principles and limits their effective participation in the conduct of the society, without which it cannot be a truly co-operative undertaking or avoid the danger of exploitation by a few influential members. Shri V. L. Mehta, then Managing Director of the Bombay (Maharashtra) Provincial (State) Co-operative Bank, stated years ago to the writer: 'A great democratic movement like that of co-operation can have no firm foundation unless it is based on the ordered will of the people, and I doubt very much whether the desire to organize for common economic endeavour will prove effective in the absence of an educated proletariat.'

The dependence of the major branch of the movement upon climatic conditions is a difficulty which the societies cannot overcome unless they can build up a reserve sufficient to carry them through several bad seasons if necessary. The large-scale irrigation projects in various parts of the country will in time improve conditions in large areas but, great boon though these will be to their direct beneficiaries, they touch, after all, but a small part of the problem. The Irrigation Inquiry Committee appointed by the Government of Bombay in 1938, for example, found only 4·16 per cent of the cropped land in that province irrigated.[8] The percentage of net irrigated area to net area sown in 1958–9 was 5·4 in Maharashtra.[9]

How serious the climatic factor is was demonstrated in the thirties in Berar in the old Central Provinces, where crop failures in four successive years made unprofitable even the carefully planned and economically run Karanja-Ramjanpur scheme under which 13 members of local co-operative societies with very heavily encumbered lands were working collectively under the Deputy Director of Agriculture of the Western Circle.[10] In some states, heavy overdues of co-operative loans have been attributed to serious failure of crops. It has not yet been demonstrated that co-operation offers the solution for the problems of cultivators of such marginal lands. Perhaps a far-seeing policy would encourage the gradual abandonment of the effort to cultivate much of this land in precarious tracts, and the clearing for cultivation of some of the country's vast cultivable but untilled area.

No less serious a problem and a more general one is the dependence of the co-operative movement on the economic situation, which the history of the depression years has amply proved. The old saying that for ten who can stand adversity there is only one who can stand prosperity has had its exemplification in the history of the co-operative movement in India. It is the expansiveness of mood that a boom period evokes, the careless assurance that good times and high prices will continue, which encourages borrowing —and lending—for unproductive purposes and that sometimes has made the central financing institutions more eager for an outlet for their funds than for the conservative conduct of the societies under their influence and control.

The blame for a situation to which negligence, mismanagement and inadequate support have all contributed on occasion cannot be laid wholly at the door of the economic situation, but the latter does inevitably play a most important part in the success or failure of co-operation. The period of over-lending in the twenties can be traced very largely to disregard of the working of the law of cycles, which is obvious in every department of nature no less than in the life of man. The Hindus, at least, should have learned better from the *Bhagavad Gita* than that prosperity had come

to stay: 'Light and darkness are the world's eternal ways.'

The Bombay (Maharashtra) Registrar warned more than 15 years ago in his report for 1946–7 that the war-time spurt in prices and in scope for distributive trade was transitory. 'The time has now come for the conservation of members' purchasing power through a savings drive and the consolidation of the finance and functions of co-operative societies so as to enable them to weather the storm of depression which may set in before long.' The tendency noticed in the past few years in Maharashtra for an increase in overdues of primary credit societies seems to indicate, to some extent, that this warning has not been taken due note of even in a state where the co-operative movement is relatively developed.

But if economic ups and downs are inevitable, much can be done by wise statesmanship to mitigate their rigours. The Saraiya Committee, in urging the adoption by the state of a policy of actively supporting agricultural prices within a range fair to both producer and consumer, remarked truly that, 'while the co-operative method of organization is itself a method of reducing the risk to be shouldered by each, by pooling the responsibilities of all, there is a limit beyond which even a co-operative organization cannot go in reducing the risks and hazards of enterprise ... risks particularly high in agriculture'.[11]

Communalism handicapped the movement to some extent in undivided Punjab, where, for example, 'communal bickering of the directors' was blamed for bringing a commission shop to the verge of ruin.[12] There has been complaint in some cases because one community was over-represented on the board of management, etc. In some of the old provinces and states, e.g. Delhi,[13] Coorg[14] and Cochin, the community of members was noted in the reports and in the latter two there was a further breakdown by castes! And this in spite of the Coorg Registrar's remarking that 'the very fact that all manner of people ... without distinction of caste and creed, have joined the various co-operative societies in teeming numbers and have evinced

keen interest in their working, is a clear proof of the great potentiality of the movement'.[14]

There is no place in the co-operative movement for distinctions of caste, creed or politics. The Rural Credit Survey Report noted that among the combinations of factors which 'operate against the interests of the bulk of those who reside in the village is the rigidity of caste feeling.... The rigidity of caste loyalty remains, while the original division of caste functions no longer does'.[15]

Weakened popular morale has been claimed as one of the handicaps of the co-operative movement. Members' disloyalty has frequently been assigned as a cause of failure of consumers' stores. Where the co-operative spirit is lacking and self-interest is believed to prompt buying or selling outside the society to which one's loyalty is due, this represents surely a failure of education in co-operative principles and possibilities. When Dewan Bahadur K. D. Mudaliar, investigating the movement in Orissa in 1938, remarked that in most societies in north Orissa, where the movement had virtually collapsed, the co-operative spirit was lacking 'the appreciation by members of their common needs and their acting together to achieve that objective through self-help and mutual help and instruction', he was really bringing an indictment against those responsible for co-operative education in Orissa. He said of the rural credit societies, 'The system is admittedly good, but for satisfactory results in its working it requires good men'. People had, he said, been entrusted with management before they were fit for it.[16]

If members' lack of loyalty to their societies or incompetence were the only complaints, they might be dismissed as requiring only co-operative education and experience to overcome. There have, however, been not a few cases of wilful default by members, of negligence and irresponsibility on the part of managing committees, and even of embezzlement, involving Co-operative Department employees in some cases as well as employees of societies.[17] Some of the co-operative enquiry committees have publicly washed their hands of certain groups; the Madras Committee on

Co-operation condemned the weavers as 'a hopeless lot, untrustworthy, indifferent and ignorant'.[18] The Berar Co-operative Enquiry Committee mention having to deal with 'sophisticated and, we are sorry to say, dishonest members'.[19] Mr F. B. Wace in Punjab before partition referred also in 1939 to the department's 'constant fight against intrigue and dishonesty'.[20] These reports and such a recommendation as that of the Saraiya Committee that the cows of members of milk producers' societies be milked in the presence of their secretary or of each other,[21] are, if justifiable, most difficult to reconcile with the traditional honesty of the Indian villager.

The embezzlement cases are the more serious in that they involve in many cases those better educated and hence more blameworthy than ignorant villagers or industrial workers. Public opinion, Mr Wace charged, was not sufficiently strong against embezzlement and misappropriation.[22] The Bihar Registrar remarked amazingly in his condensed 1943 report that the criminal cases 'were generally settled amicably'![23]

It cannot be doubted that much of the present spirit of lawlessness, which finds expression, for example, in ticketless travel on a very large scale, traces back to the widespread feeling that if the better could be got of the alien government it was a matter for congratulation. This was the opening wedge for laxity in other dealings and the attitude that it denoted has unfortunately, if understandably, survived the acquirement of freedom. The Reserve Bank's Agricultural Credit Department found the feeling on the part of some provincial governments that the Debt Relief Acts had weakened the people's moral sense and that in many cases agriculturists with sufficient repaying capacity were holding out in the hope of further concessions.[24] It referred in its review for 1939–40 to 'a general impairment of a sense of contractual obligations'.[25]

In view of these charges and of what Mr Wace called the 'undoubted decay of the former sense of obligation to repay debts',[26] it is reassuring to note that there are individual instances of societies with good records of repayment by their members.

Certain administrative difficulties must be counted among the handicaps of the co-operative movement. The place of the departmental staff in each state is of a significance perhaps hardly comprehensible by co-operators in countries where co-operation is predominantly a spontaneous effort. Official nurture is not the ideal method of sustaining a co-operative movement, but in the Indian context the choice was, as it has been largely ever since, between a government-initiated and government-fostered effort and leaving the impoverished people without the alleviation of their sufferings which most agree co-operation can bring about. What has, however, been imperfectly realized in general is the vast responsibility which the underwriting of the co-operative effort involved and implied. There was no overpowering obligation to start the movement in the absence of full conviction as to its possibilities but, having started it, there was, and is, an inescapable moral responsibility for its development on sound lines. That that responsibility has been discharged with varying degrees of inadequacy must be apparent to any serious student of the movement. In certain states a degree of ineptitude, a casualness and a piecemeal attack have characterized an approach to the problem that would have spelled ruin to any private business on a comparable scale—that has, alas, spelled ruin for too many whom the movement was designed to serve. The attitude of the state governments to co-operation is of crucial importance. Co-operation is, and should remain, a subject within the province of the state governments. They are primarily responsible for its welfare; the movement is intended to serve the rural people who constitute the vast majority of the population in each state. Under the co-operative development plans, sizeable assistance to the movement and to the state governments themselves is available from the Government of India and the Reserve Bank. In such a context, it is all too easy for state governments to fall a victim to the feeling that co-operation is somebody else's business. Such a feeling will spell disaster to the movement. It should, therefore, be guarded against. The co-operative development plans will not succeed unless

the state governments are whole-heartedly behind them, fully aware of their responsibilities.

This is not to question the good intentions of the administrative officials, many of whom have proved their faith in co-operation by devoted service, or even of the governments concerned. The charge of a general step-motherly attitude towards the movement under the British Raj can easily be disproved. Not only was fairly generous support in an administrative sense forthcoming in several of the old provinces and states, but also, when the defects of co-operative practice and administration could no longer be ignored, committees or qualified persons were called into consultation. This action, though sometimes belated, yet bespoke sincere concern for the welfare of the co-operative movement and its intended beneficiaries.

Up to the transfer of the co-operative portfolio to the provinces in 1919, the central government had lent Rs 97·27 lakhs to the movement, besides the expenses of maintenance of staff, grants-in-aid and subsidies, etc.[27] Its continued interest in co-operation has been evidenced by the appointment more than fifteen years ago of the Agricultural Finance Sub-committee and the Co-operative Planning Committee, whose reports have made distinct contributions to the movement. Recently, the All-India Rural Credit Survey Committee, appointed by the Reserve Bank, has made far-reaching recommendations for the reorganization and strengthening of the movement. These have been broadly accepted by the central and state governments, the Reserve Bank and the co-operators of India. The recommendations have been embodied in the co-operative development plans of the states and in the Second and Third Five-Year Plans. In addition, various benefits and privileges have been conferred, such as guaranteeing the repayment of principal and payment of interest of debentures and of loans, the giving to co-operative societies of a prior claim to enforce recoveries, etc. The central government in 1935, following an investigation on its behalf by Mr (now Sir) Malcolm Darling and on his recommendation, instituted special grants to the provinces for co-operative education and

training, which have been a boon to the movement. Sir Malcolm, in another report published in 1957, observed that this effort was brought to an end by the last war, but has now been revived on an all-India scale with a scheme which is being financed by the Government of India.

Generous as the support for the movement has been since 1919 in several states, it has been fully adequate in none, wholly inadequate in others. The Travancore Co-operative Committee compared in 1934 the cost to the government per society and per member in that state—Rs 35·3 and As 4-4½, respectively—with Bombay's Rs 96·3 and As 11; Madras's Rs 73·5 and Re 1-1-7 and Cochin's Rs 78·1 and As 12-5, respectively.[28]

When one considers the large amounts by which a number of provincial governments were out of pocket for their quasi-compulsory contributions in connexion with the rehabilitation of the movement when it was threatened with collapse in the past, one must reflect that had a moiety of these sums been spent on co-operative education and adequate supervision no rehabilitation might perhaps have been necessary.

From 1919–20 to 1945–6, while the total working capital increased from Rs 1,968·86 lakhs to Rs 14,433·42 lakhs, or by 633·1 per cent, loans and deposits from the government increased only from Rs 24·54 lakhs to Rs 74·02 lakhs, or by only 201·9 per cent. Government loans during the period never represented more than 1·63 per cent of the working capital. They represented 1·25 per cent of working capital in 1919–20 and only 0·51 per cent in 1945–6 for the country as a whole.[29]

Relatively small as state monetary aid had been, however, the Reserve Bank pointed out, in its review of the co-operative movement for 1939–46, the considerable measure in which, by its moral support and by the provision of supervision, assistance, counsel and control, the government had contributed to the position of the movement.[30]

Recent years have seen an increase in the financial help provided by the government to the co-operative movement. During the period 1950–51 to 1955–6, the total working

capital of the movement increased by 70 per cent; the increase in respect of loans from the government was by 108 per cent. Loans from the government formed 4·2 per cent of the working capital in 1950–51 as against 5·2 per cent in 1955–6. The total expenditure of the state governments on their Co-operative Departments totalled about Rs 19·61 crores in 1959–60. Under the co-operative development plans of the various states in India, substantial aid from the government is available to the co-operative movement, such as contribution to the share capital of co-operative credit, marketing and processing societies, and subsidies for construction of godowns and employment of staff. This development has been dealt with in the concluding chapter.

The question of adequate support will be considered among the conditions of success for the co-operative movement. It may, however, be mentioned here that there has been complaint that some of the Co-operative Departments are understaffed, and in some reports that fact has been offered as an excuse for not promoting one or another desirable type of co-operative activity and even for neglect of statutory functions. On the lower levels there has been a scale of remuneration which has made it difficult in several states to recruit the needed staff, and impossible in most cases to command the proper type of service for the vitally important work of audit and supervision.

In certain states the rapid turnover in Registrars cannot be in the interest of an integrated policy. Sir Malcolm Darling, in his report published in 1957, noted with disapproval that in Punjab there had been as many as six Registrars since July 1951 and when he visited the state in March 1957 a seventh was about to be appointed. There were three Registrars in Rajasthan in two and a half years and four in Kerala in five years. Similar quick changes have been noticed in other states also, such as Mysore and West Bengal. Sir Malcolm has recommended that 'Registrars should not be transferred under at least three years, and in general, not for five years or more'.[31]

In spite of the Maclagan Committee's having approved

the same administrative superior for the Co-operative Department and numerous others, such as the Agricultural, Industries and Fisheries Departments, to ensure co-operation among them,[32] it is felt that the combining of the post of Registrar with the headship of any other government departments should be recognized as undesirable and a temporary expedient, even where it is held to be necessary for financial reasons before the movement assumes sufficiently large proportions in a given state. The administration of a Co-operative Department in any state where the movement is fairly launched is a man-sized task and its proper discharge calls for all the time and energy of the Registrar. In Maharashtra the Registrar is also the Director of Agricultural Marketing and Rural Finance and he has been entrusted with the administration of the Moneylenders' Act. In undivided Punjab the purchase of the provincial reserve of foodgrains in 1942 was laid on the Co-operative Department, a task which called for utilizing the entire co-operative organization for this work outside its proper field. Elsewhere also, other duties have been laid on the Registrar which it would seem must detract from his efficiency in relation to the co-operative movement.

If, as has been suggested, this assigning of additional duties is sometimes welcome to the Registrar for augmenting his income, the solution would seem to be adequate recognition of the dignity and responsibility of his office on the part of the government, and perhaps also a readiness to sacrifice on behalf of the cause on the part of the incumbent. The Saraiya Committee declared that the Registrar should enjoy a higher status and a longer term of office; and that he should rank with the heads, for example, of the Police and Public Works Departments.[33] This was endorsed by the All-India Rural Credit Survey Committee.

Though an ex-Registrar of Co-operative Societies in Bombay assured me some years ago that the Registrar *must* tour for 120 days each year in order to contact people in all parts of the state, his presence being more effective than circulars, it is still a question in my mind whether excessive touring is not in very many cases expected of and

done by the Registrar. As the directing head of the movement, should he not have time to survey trends and to devise policies and check their working ? The general's place is not in the front-line trench.

A very unhealthy tendency which has come to the fore in recent years is the appointment of Registrars without giving them training, in spite of exhortations to the contrary by authoritative opinion. Sir Malcolm Darling in his report published in 1957 has noted that 'it is still the rule rather than the exception for Registrars to be appointed without any training at all', citing the instances of Bihar, Bombay, Kerala, Orissa, Rajasthan, West Bengal and Uttar Pradesh. Sir Malcolm called this practice indefensible and deplorably short-sighted and recommended that it should be a hard and fast rule that no one should be appointed Registrar without at least a year's training.

The Reserve Bank's Standing Advisory Committee at its eighth meeting held in Bombay in February 1958 endorsed these recommendations. The Committee stressed that the Registrar should be an officer with adequate training in co-operation and should be kept in his post for a sufficiently long period of time. The Committee recommended that in every state, besides the Registrar of Co-operative Societies, there should be an Additional or Joint Registrar who could be expected to succeed the Registrar as and when necessary. 'Where such an officer had not had previous training or experience in co-operation, the state government should provide for a period of training which would include visits to co-operative institutions in and outside the state and a study of matters relating to rural credit and co-operation in the Agricultural Credit Department of the Reserve Bank.'

It is to be hoped that the state governments will pay heed to these recommendations at least now when for the success of their co-operative development plans it is essential to have at the helm of the Co-operative Department a trained and experienced Registrar who will remain in his post for a sufficiently long period of time to ensure continuity of policy and direction.

Yet another undesirable tendency has been the conferring

of the powers of the Registrar on persons who are not subject to his administrative control. For instance, in Uttar Pradesh, the co-operative cane unions are under the Cane Commissioner who can exercise the powers of the Registrar of Co-operative Societies, without referring to the Registrar. In some states, the Director of Industries has been clothed with the powers of the Registrar in regard to industrial co-operative societies, without being subject to the Registrar's control. This creates various administrative difficulties and even confusion. The Committee on Co-operative Law (1957) recommended in this context that to ensure co-ordinated control and unified direction, the co-operative financing agencies and the societies financed by them should be under the administrative control of a single authority. The Committee added that 'persons on whom powers of the Registrar are conferred shall work subject to the general superintendence and control of the Registrar'.[34]

The public apathy towards co-operation, which has been a handicap, is understandable in the light of the record in a number of sections. It will, however, not survive the repeated convincing demonstration of the possibilities of the movement. That nothing succeeds like success is a truism, and dissemination of news of outstanding successes is the co-operative movement's best propaganda.

While there has been good co-operation between the co-operative and other departments in certain states, in others the optimum degree of co-operation has not been forthcoming. The Madras Committee on Co-operation, for instance, was 'struck with the water-tight approach of the government departments towards rural problems'.[35] The present unco-ordinated activities of the various Co-operative Departments among themselves, as well as sometimes with other departments, reminds one of Kipling's dream of the future reward of good artists, each 'in his separate star', drawing—

> ...the Thing as he sees It for the God of
> Things as They are

whereas the co-operative picture needs to be co-operatively

painted and not for the God of 'things as they are', but of things as they might be and ought to be.

The Rural Credit Survey Committee recommend that the subjects of co-operation, agricultural and cottage industries (as well as industries generally) might be combined in one department in the secretariat of each state government and placed in charge of a senior Secretary who might also be the Development Commissioner. The Committee said that it would be a further advantage if all these subjects were combined in the portfolio of one Minister.[36]

WEAKNESSES

Co-operation has been well called 'self-help writ large'—concerted effort by the members of a group to improve their own and each other's condition. The recognition of the need by the prospective beneficiaries of the effort should come first, then the realization that co-operation offers a way to meet it, and finally the taking of the necessary steps. The lack of spontaneity in the Indian co-operative movement is admittedly one of its greatest inherent weaknesses, however unavoidable in the circumstances. The movement in India was stigmatized by Sir Horace Plunkett as, 'with the exception of a few genuinely co-operative cases, due to the zeal of a Registrar or of some philanthropic individual ... not so much a movement as a governmental policy'. He emphasized that the greatest of all obstacles to self-reliance was 'the habit of looking to the government to do for us things which we can and ought to do better for ourselves'.[37]

There are perhaps no people so patient in discomfort and suffering as the Indian masses. Their patience has too long been exploited. Their wretched condition forbade delay until the prerequisites of co-operation on orthodox lines were forthcoming. Considering the need, the launching of the co-operative movement in India was not premature. Nor has its guidance by the Co-operative Departments in the states been unnecessary,up to a point. It was a choice

between government control and speedy collapse of the effort.

Enthusiastic non-official co-operators deplored the stand taken in 1928 by the Royal Commission on Agriculture in favour of strengthening official control for the present, although it recognized genuine co-operative control as an ultimate objective.[38] Even yet the time has not come for the de-officialization to which all friends of genuine co-operation must look forward, though there was justification for what Shri V. L. Mehta, then Minister for Co-operation in Bombay, said in 1944: 'State aid even on a liberal scale does not necessarily connote state control of the type in vogue in the co-operative movement in India today.'[39]

The powers of the Registrar in all states are large. As one prominent non-official co-operator put it to the writer: 'The Registrar is the Brahma, Vishnu, and Siva of a co-operative society.' None can be organized without his sanction, and while appeals against his decisions are possible, they have been rather rare. In many cases the unlettered members do not know that they have the right of appeal, and a strong tendency is reported to take his suggestions as orders, which obviously is not in the interest of developing self-reliance and a sense of responsibility. In at least two of the old provinces, at one time or another, power had been vested in the Registrar to direct an amendment of the by-laws of a registered society, which, it has been truly claimed, violates all co-operative principles.[40] Certain amendments to the Co-operative Societies Acts in Bombay (Maharashtra) and Madras provided for compulsory amalgamation of societies, under certain circumstances.

A difficulty, however, has been that, though the Co-operative Departments have assumed the task of guidance, they have not assumed — perhaps could not assume — the responsibility that is morally inseparable from power. Where, for example, undertakings of dubious feasibility have been gone into on the recommendation or even insistence of department officials, as in some of the ill-starred non-credit undertakings in north Orissa[41] several years ago, or the trading scheme in Assam worked through

central and primary trading co-operatives, and these failed, the hapless members had to bear the brunt. It is difficult to absolve the government of responsibility in such cases, whatever the legal position may be.

An unfortunate effect of the long conditioning of the co-operative societies for dependency is the alacrity with which co-operators turn to the government as the giver of gifts. It is a striking experience to attend a co-operative conference and to hear proposed — and passed — one resolution after another requesting — almost demanding — help from the government in this, that and the other direction. Joint borrowing, in good faith, of the necessary wherewithal for work and even for subsistence is legitimate, but begging it, or even expecting it as a matter of course, takes the undertaking out of the co-operative category altogether.

Granting all that can be said in the abstract, however, against paternalism and government leading-strings, it is not believed that the present state of the movement justifies the Registrars in relinquishing the ultimate control to any non-official bodies. It is highly desirable for the state co-operative institutes and unions to assume effectively the functions of propaganda and education, but the Registrar, as the one responsible under the law, must know what is being done, and how.

The failure of the co-operative movement to serve the neediest strata is a general weakness, in spite of the efforts made on behalf of the Harijans or depressed classes in some states, as also on behalf of the aboriginal tribes. The very suitability of co-operation for serving these people has been questioned,[42] though in the United States, it may be mentioned, the Farm Security Administration had set up co-operatives within its framework for sub-marginal groups throughout that country. It may be necessary to admit that in India and in Pakistan the possibilities of the co-operative movement in connexion with the greatest credit risks are limited. Mr. F. B. Wace referred to 'the considerable percentage of agriculturists who under any prudent system of credit should not be permitted to borrow'.[43] The Bombay Co-operative Banks Association in December 1947 passed a

resolution agreeing with the Gadgil Committee that 'special state machinery is necessary for the provision of relief and rehabilitation in backward areas, in tracts where distress conditions almost form part of the cycle of production, ... and also in areas of solvent economy, where particular communities suffer from a depressed condition'.[44] The Rural Credit Survey Committee recommended that for 'economically backward areas, for areas largely inhabited by backward tribes and for economically backward occupational classes, when special schemes of government for their benefit are in operation, the state should take special responsibility and provide administrative, technical and financial assistance, including subsidies, guarantees, etc., where necessary, to the co-operative societies and the central banks or branches of state co-operative banks which in the aspect of credit are participants in the programme of special development'.[45]

There have, however, been enough cases of modest or even striking success, as among sweepers' societies in the old Central Provinces and Berar[46] and among the Bhils in certain Bombay districts,[47] which have alleviated if not vastly improved the condition of members of groups unfavoured by co-operative opinion as well as by fortune, to justify the continuance and extension of efforts on their behalf.

Separate societies for the hill tribes may be justified where they live in isolated parts, but for the depressed classes, at least where the case is not that of special interest groups on an occupational basis, the aim should be their gradual assimilation in societies of mixed membership. The Banking Enquiry Committee in Bombay held that 'the success of the movement depends in a large measure on the judicious selection of members and the steps taken to educate them in co-operative principles'.[48] This principle of selectivity can be carried too far. The aim of the Co-operative Department in any state should not be primarily to establish a good record for the movement there, though that is of course desirable, but to help those who need help to the greatest possible extent consistent with safety. It is better to keep the bars as low as sound practice permits than

to make a spectacular showing with a hand-picked membership in selected areas.

Especially in a movement requiring support from the taxpayer, the advantages should not become the closed preserve of a group. The propriety may well be questioned of enrolling under the co-operative banner a society most of whose members are big landlords, such as the Okara Zamindari Sale Society in undivided Punjab, for example, whose success was mentioned approvingly in the Reserve Bank's 1939–40 review.[49] Its thirty-six members sold in that year Rs 11 lakhs' worth of products. Its demonstration of the possibilities from member loyalty has its value and it is of course highly desirable that men of property should be drawn into the movement. They can supply a stabilizing factor in societies in which men of small means predominate. Societies restricting membership to a particular community can no longer be registered, for example, in Bombay. Would it not be desirable to rule out also exclusive groupings in terms of economic status ?

Other weaknesses of the movement have been the almost exclusive emphasis for so long on credit — though the pendulum is swinging now in the other direction — and the inadequate linking of credit with thrift and with other co-operative lines; the tying up of funds in long-term loans; the overdues problem; the frequent defects of management and shortcomings in the attitude and policy of certain central institutions.

Administrative weaknesses have also played a large part in the failure of the Indian co-operative movement to achieve more than it has been able to. Among these has been apparent lack of vision, on the part of many department officials, of the problem as a whole and of the possibilities of the co-operative approach to the country's problems. Another major shortcoming in not a few instances has been irresponsible propaganda.

Propaganda is very necessary if co-operation holds the hope which its proponents believed that it did, but there has been failure in some cases to present the picture fairly. The uninformed enthusiast in such a cause as the co-

operative movement is a public menace. As Dewan Bahadur K. D. Mudaliar wrote in 1938, 'Philanthropy and enthusiasm are certainly important in the scale of human values but they cannot be a substitute for business principles'.[50] In Orissa, he found not only that certain honorary organizers had let their enthusiasm run away with them but also that official enthusiasm, combined with lack of required technical knowledge, had been responsible for part of the unsound financing of artisans' or industrial societies.[51]

Frankness in propaganda is absolutely necessary. To encourage ignorant villagers, for example, to accept unlimited liability without explaining its full significance and the risk they run falls, from the point of view of moral if not of legal responsibility, not far short of criminal breach of trust. Those who paint only the bright side of the picture to prospective co-operators do them a grave disservice. They need to be impressed with the fact that very many who were attracted to the movement but did not play the game according to the rules, who succumbed to the lure of facile credit, who failed to appreciate the implications of collective responsibility or who in some cases only fell victims to a combination of inauspicious circumstances, have been ruined. For their own safety and in common fairness the facts should neither be glossed over nor suppressed.

Primary society after primary society has gone into liquidation, individual co-operators by the thousand have been brought to ruin, much of which could have been avoided by a sound and conservative credit policy accompanied by the education of the managing committee and members of every primary society in the principles and implications of co-operation. Co-operation is not a children's game to which all can be light-heartedly bidden welcome. 'Ring-a-ring-o'-roses. . . . all fall down !' Great fun for the little tots, but sheer tragedy for the adult co-operator with a family to support. All men suffer from their own ignorance, their lethargy or their folly, in varying degrees, and, humankind being interdependent, all in a sense suffer from each other's shortcomings. But the co-operator puts himself in a position where he is peculiarly vulnerable to the ineptitude no less

than to the malfeasance of others, particularly of those entrusted with the management of the affairs of his society.

Co-operation in India as in Pakistan in the present economic framework and in the light of over six decades of experience needs to be presented only as a possible plank of salvation. If rightly handled, and provided adverse conditions beyond the present control of individuals or of their societies do not frustrate the undertaking, co-operation can bring the poverty-stricken farmer or artisan to solid land. More hope than that cannot in good conscience be held out. So unfortunate is the economic status of many that they will still join the movement in their thousands for the conditional hope that it offers. But, with eyes open in advance to the possibilities in both directions, they will naturally be more cautious and their fellow-members and the managing committee will find them less disposed to *laissez-faire*. Members fully aware of the risk but willing to take it, for the hope co-operation offers of bettering their condition, will be on the alert to see that the conditions of success are met. Conscious self-interest will then prompt the vigilance which has so often been wanting, in regard not only to amounts lent but also to the uses to which loans are put and the promptness with which fellow-members discharge their obligations, the managerial policy in regard to renewals, etc.

If there is one lesson that the history of the co-operative movement in India teaches more than any other it is the need of curbing the common human urge to try to run before one can walk steadily. John Wesley's saying, 'I haven't time to be in a hurry', deserves to be engraved on the pillars of co-operative institutions. Consolidate the position gained and make your supply lines secure before advancing far into new territory is a sound maxim of co-operative no less than of military strategy. This involves the closest possible hook-up between propaganda and co-operative education, which will be discussed more fully under 'Conditions of Success'.

Neglect of education in co-operative principles and practice, for departmental officials and honorary workers

as well as for office-bearers, staff and members of co-operative societies, has exacted a heavy toll. The Reserve Bank put its finger on the difficulty when it said:

It appears ... that the pace of expansion before the depression has been too rapid to have been really sound and contained within itself the seeds of subsequent collapse. It had 'outrun co-operative education'.[52]

The commendable zeal with which many official and non-official workers threw themselves into the organization of co-operative societies unfortunately was not matched by an equal enthusiasm for the more tedious work of educating prospective and actual members in the principles on which co-operation rests. Again and again the lack of such education has been blamed for the disappointing showing in certain states; in none has the ideal in this direction been attained.

The late Professor V. G. Kale said in his report on co-operation in Gwalior in 1937 that the vital importance of co-operative education and training was very often not appreciated and in Gwalior appeared to have been entirely neglected. 'Inefficiency and stagnation have been the result.'[53]

Almost desperate as the situation appeared in the erstwhile Bhopal State in 1944–5, with 867 societies under liquidation and only 321 primary societies functioning, the notation under 'Training and Propaganda' in the Registrar's report was tell-tale: 'No arrangement could be made this year also; no funds being available for this purpose.'[54]

The Travancore Co-operative Enquiry Committee found the absence of the fundamentals of co-operation not only among members but also in a large proportion of the office-bearers of societies 'probably the main reason for the present decadent condition of the movement'.[55] A plea in extenuation was offered by Mr (now Sir) Malcolm Darling, who wrote that 'the difficulty of getting the simplest rules and principles into the heads of illiterate peasants can hardly be exaggerated'.[56]

Two years later Mr F. B. Wace remarked that 'in practice, societies are constantly found ih which most, or even

all, the members are largely ignorant of co-operative principles'.[57] We have seen, in the consideration of the educational function of the state co-operative institutes, how inadequate is the provision for education in most sections, though in some states, such as Maharashtra, Madras and Punjab, great efforts in that direction have been made.

Without a thorough grounding of the supervisory staff in co-operative ideology and practice, its members cannot be expected to impart what they have not themselves fully grasped. Their knowledge of co-operative procedure requires a broad mental background, the broader the better, but intelligent effort on behalf of the co-operative movement presupposes also a rudimentary knowledge at least of agricultural economics and some perception of the co-operative effort in its setting.

Failure to fix definitely the limits of departmental efforts and responsibility seems responsible for some of the administrative difficulties. It seems apparent that in some states the shortage of workers complained of is due in part to the department's energies being spread in directions outside their proper field. The recovery of dues, the lending of the services of departmental workers to particular societies, these should not be necessary if members were properly educated in co-operative principles and trained, where necessary, in the special duties connected with societies of new or unusual type.

There have been serious organizational defects in certain states, though in the more co-operatively advanced states a division of responsibilities, with Deputy, Joint or Assistant Registrars on functional as well as regional lines, has been a growing trend. Neglect of statutory functions in a very large number of cases seems evident from some of the Registrars' reports. By no means all societies are even audited annually, an inadequate staff being commonly the excuse.

Another point inviting question is the apparent arbitrariness with which the government's favours sometimes fall. In the absence of full knowledge of the circumstances, it is difficult to see why certain societies should have more help than others in the form of subsidies or loans of departmental

staff. Apparently this is as the Registrar in his wisdom may decide. It seems important that, in a democratic movement, the conditions under which help of this, that, or another type will be given (as in the frequent provision of special subsidies to all new societies of different types) should be everywhere clearly defined, so that the suspicion of favouritism may not arise. It is gratifying to note that under the co-operative development plans, the terms and conditions of state aid have been clearly indicated.

There would appear to be room in many cases for a more definite effort to build up an *esprit de corps* among departmental workers. It is of great importance that co-operative workers on the lower levels, tied to their often humdrum and sometimes unpleasant tasks, should catch the spirit of being themselves engaged in a great co-operative enterprise, an attack upon the problems besetting their country to which the best efforts of each in the measure of his ability are due. The Registrar in the erstwhile province of Ajmer-Merwara mentioned having found monthly meetings of the co-operative staff of great value for discussing problems and strengthening morale.[58]

The interest of honorary workers also needs to be woven more firmly into the co-operative fabric, in achieving which frequent district and state conferences have an important part to play. There must be more deliberate effort to attract more honorary workers of the right type to the movement and the opportunity which it offers for constructive national service, to educate them adequately in co-operative theory and practice and to utilize their services more fully than they have been utilized in the past. The Saraiya Committee stressed the importance of so designing the machinery of consultation and administration that 'there is constant interchange of views and opinions between the non-official co-operators and the officials'. Not only, it is pointed out, will popular opinion be based on actual experience of the working of co-operation, but the close association of non-officials with the movement will serve to emphasize its democratic nature.

While the state can only assist and guide the movement, its growth as a live

force for the development of the country will depend upon the popular support that it will get through close and continuous association with non-officials.[59]

The late Professor V. G. Kale proposed for Gwalior an Advisory Council of earnest and active honorary workers and of the representatives of co-operative institutions in the various districts, and that the Registrar consult it and take it into his confidence in respect of measures to be adopted for the development and progress of the movement,[60] a suggestion deserving wide adoption. Some states now have Co-operative Advisory Councils consisting of official and non-official co-operators but they generally seem to have made very little contribution either to the framing of co-operative policy or its effective fulfilment.

Inadequate arrangements for expert counsel must be accounted another administrative weakness. In certain states a financial adviser has been formally appointed; in all, one is very desirable though, in many, volunteer service may be available. The Co-operative Planning Committee recommended the provision of the necessary consultative staff in connexion with industrial societies, for example — two nominees with special knowledge of industrial finance, another engaged or interested in wholesale trade in the products of local industries and two others with technical knowledge of the industries, or markets, or finance or business in general.[61] Such advisers are no doubt consulted by the departmental officials in states where industrial co-operation is relatively prominent; their counsel is needed elsewhere also for its development upon sound lines. And so on down the line of special interests concerned in the expansion of the movement.

Besides being available for frequent consultation, such experts might well form, with the senior staff members at headquarters and prominent honorary workers, the Registrar's 'Cabinet', meeting at fairly regular and not too infrequent intervals for consultation upon policies and trends. It should be possible, with the right approach, to get not mere well-wishers who have not succeeded very well themselves, but top-ranking men in their respective lines, who 'know how' and are willing to give the co-operative

efforts of their less fortunate neighbours the benefit of their financial, business or industrial experience.

Inadequate contact between co-operative officials in different parts of the country has been mentioned. Visits to other states, by those to be in charge of a new line of co-operative work which has been successful there, are of course desirable, but even more important are adequate contacts between the Registrars and between them and leading workers throughout the country, so that news of promising developments and methods may more quickly spread. All-India co-operative conferences, with provision of time for short reports of one or two significant developments in the several states, should be of great value. There has been a spate of such conferences recently. These conferences will be of value only if the preparatory work done in connexion with them is thorough, and if there is adequate follow-up of the recommendations.

The departmental delays sometimes complained of, where not due to involvement in red tape, should be reduced when the Co-operative Departments are more adequately staffed. But in some states, a great deal of slackness seems to have crept in. This is due to various causes. In some cases, this arises from too much centralization. In others the cause may be inexperienced field staff of poor quality not fully familiar with co-operative ideology and practice. In certain other instances, the slackness is due to lack of guidance and direction from the top.

Reluctance to relinquish authority has been charged against co-operative officials, in some cases with apparent justice. The Bengal Co-operative Societies Act of 1940 was exceptional in providing that some of the Registrar's powers in respect of any co-operative society might be transferred to a well-managed co-operative society of which it is a member.[62] However, this provision does not appear to have been put to use. It is significant that, while the Bombay Government's proposed large shareholding in the Provincial Co-operative Bank, announced in June 1948, carried no voting rights, it was specified that the government should have 'the reserve power to frame and impose

by-laws'. There was the same proviso for the apex bank in relation to central banks.[63] The All-India Rural Credit Survey Committee recommended that ordinarily the state government should not be allotted more than one-third of the seats on the boards of the institutions in which it was a major shareholder. At the same time, the government should have overriding powers on certain specified matters of policy. The Second Indian Co-operative Congress held at Patna in March 1955 urged that such nomination by the government should not exceed three persons. On the question of overriding powers, the Congress was of the view that these special powers should be strictly confined to the loan policy of the institutions or such other specific items falling within the category of financial policy which should be clearly laid down in advance. The Committee on Co-operative Law (1957) has generally endorsed these recommendations of the Congress. The Model Co-operative Societies Bill prepared by the Committee provides that where the state government has subscribed to the share capital of a co-operative society directly or indirectly or has guaranteed the debentures or loans, the state government or any authority specified by it shall have the right to nominate not more than three members or one-third of the total number of members of the committee of the co-operative society concerned, whichever is less.

In India and Pakistan, on account of the abnormally wide gap subsisting between the privileged and the under-privileged, a more special effort has to be made by department officials than has always been made, to retain the human touch in their contacts with the members of primary societies. A condescending attitude may defeat the very object of the Registrar's tours. In India, food is hospitably urged upon the visitors by an embarrassing number of members, but whether there is always perfect frankness in the expression of their views and needs may be doubted. Co-operative societies are not charitable institutions, nor are their loans alms. The self-respect of the members of such societies is an important element in the feeling of responsibility which the movement seeks to encourage; it should be jealously

guarded by all concerned. If retainers' uniforms make the villagers feel insignificant, should not the *chaprasis* wear on tour the simple costume of the villages ?

Most serious among the weaknesses connected largely though not wholly with administration is the growing trend away from the co-operative ideal. I do not refer primarily to the trend towards increased officialization, marked though it has been, although against it must be set such a striking step as the entrusting of the education, even of high co-operative officials, to a non-official body, the State Co-operative Union in Bombay. The possibility of appeal from the Registrar's decisions to a non-official State Co-operative Tribunal or Council such as, for example, that which has been formed in Maharashtra (old Bombay), should be another corrective to exaggeration of this trend. It is gratifying to note the recommendation of the Committee on Co-operative Law (1957) that 'as in Bombay, every state may constitute a Tribunal to hear appeals against orders passed in arbitration proceedings'.

Nor do I refer to the necessary insistence on the observance by co-operative societies of sound banking practices; nor to the 'controlled credit' which, in the interest of the group, waives part of the opportunity for character-training which ideally co-operation offers to the individual; nor even to the firmly entrenched preference for tangible security, which needlessly restricts the movement's privileges chiefly to the more economically favoured. I refer to the trend to compulsion which has been growing in favour in the last few years and which holds a threat not only to all beyond the strictly material ends of co-operation but even to democracy itself.

As early as 1939, the Thirteenth Conference of Registrars declared that no one should be forced to join a co-operative society, whose decisions, moreover, should not be binding on non-members.[65] It opened the door, however, to the insidious growth of the contrary principle by the concession that, where the provision of some utility service was involved, if at least two-thirds of those concerned considered it desirable, compulsion might be applied.

The Fourteenth Conference of Registrars (1944) passed the following resolution:

Where the extension of a plan requires action by all members of an economic category or group, it should be made compulsory for all either to join a co-operative society for the purpose or otherwise to carry out the plan.

The Saraiya Committee Report (1946) went further and, after paying its formal respects to the voluntary principle governing co-operative effort, conceded that when, in certain activities essential for economic progress, such as consolidation of holdings, crop protection or irrigation, the desired object could not be attained without resort to compulsion, 'a resolution passed by the members of a co-operative society who form two-thirds of the community should be made binding by law on non-members also'.[66] When it is remembered that general meetings of rural co-operatives are notoriously badly attended, and that a majority of those present and voting is sufficient to pass a resolution, it can be imagined what power this would put in the hands of a few. The proviso that a responsible agency should be set up to determine whether a particular scheme is essential might mitigate the possible results but does not affect the principle, which from the point of view either of co-operation or of democracy seems wholly wrong.

Nor is the principle affected by the Committee's assurance that 'responsible nation-building departments of the government with a new outlook will be able by means of education, propaganda, persuasion, demonstration and denial of privileges to non-members to bring about the organization of co-operative activities along planned lines without resort to compulsion'.[66] Education and propaganda may or may not bring about unanimity, but the admission of the wolf of compulsion into the co-operative fold is in any case unjustified and fraught with danger. It represents the thin edge of the totalitarian wedge. It is precisely because, as one high official once expressed it to the writer, 'The climate of opinion has changed in recent years and greater interference in people's lives is taken as a matter of course', that democratic countries should be on their guard.

The 'co-operative' (really collective) farming scheme put forward by the Rayalaseema Co-operative Enquiry Committee (Madras) in 1946 under the name of 'project areas' approved compulsion at the will of a two-thirds majority. No scheme of the kind proposed, they declare, can work 'if individual owners of land to be included in the farm are given the right of non-accession to or secession from the farming society', which they seek to justify by the 'changed outlook on social order and economic organization'.[67] Under the Co-operative Societies Act in Bombay, a scheme of co-operative farming accepted by not less than 66 per cent of the owners in possession of not less than 75 per cent in the aggregate of the land proposed to be included in the scheme, becomes binding on the rest, after an elaborate procedure has been fulfilled. Everyone would deny that the owner of a big farm which surrounded a small farm on three sides would be justified in demanding that the small farmer join him against his will in a common enterprise. Does that which is wrong for one neighbour become right when several or all his neighbours try to enforce their will on the dissenter ? Moscow lies that way.

Such action is obviously *ultra vires* for societies as the Co-operative Acts generally stand at present and it is to be hoped that the proposal to bring coercion of non-members within the power of co-operative societies will be stoutly resisted. If such amendments are passed there is still hope that the Courts may have something to say in defence of fundamental rights, though the probable victims of such aggression (strictly, of course, in their interest as well), will probably be the most ignorant and defenceless members of their communities and hence those least likely to seek judicial redress.

Apropos of the proposal to force the reluctant, willy-nilly, to co-operate, attention may be drawn to the provision in the United Nations' Universal Declaration of Human Rights (Article 20, Subsection 2) that 'No one may be compelled to belong to an association'. Is this provision to be flouted in the name of co-operation ?

The very assumption, by the co-operative organization

in a state, of the responsibility for carrying out the objectives of a planned economy might put it in a position where abrogation of co-operative principles would be difficult to avoid.

Which is more important in the long run, that the co-operative structure should serve as the only credit agency subsidized by the state, or that co-operators should remain true to their principles, accept the impossibility of developing on sound co-operative lines with sufficient rapidity to meet the need of all creditworthy individuals, and leave it to a supplementary agency to try to do what it cannot at the moment without departure from its own *dharma* ?

Which is more valuable to the country, that immediate material benefits should be made available to as many of a group as possible, at the cost, if need be, of the ideals which are the heart and soul of the co-operative movement, or that the movement expand no faster than is compatible with those ideals ? In the former case we shall have a soulless mechanism, however efficient; in the latter, given proper fostering, we shall have a movement that promotes the development of individual character and the progressive realization of national unity and human brotherhood. Mr E. R. Bowen, General Secretary of the Co-operative League of the U.S.A., once called the co-operative movement 'a plough guided by a star'. Co-operators, members, honorary workers and officials, all need that star to plough their furrows straight.

Co-operation will have failed of its chief mission unless, as Shri V. L. Mehta has declared, the co-operators bring into their combination for a common economic end 'a moral effort and a progressively developing realization of moral obligation'.[68] It is, to say the least, inconsistent and futile to push forward co-operative expansion regardless of principles because economic prosperity is recognized to be necessary as a bulwark against communism, while at the same time welcoming the communist ideology into the fortress by introducing the principle of compulsion into co-operative effort.

Coercion to ensure the carrying out of obligations freely

assumed falls in a very different category from the imposition of obligations without the consent of those concerned. Where the obligations have been undertaken without adequate knowledge of the responsibilities and risks involved or where the failure to fulfil them is due to circumstances beyond the defaulter's control, even legitimate coercion may work undue hardships, but it does not strike at the roots of the co-operative ideal as does enforced participation in a nominally co-operative undertaking. Compulsion in co-operation is a contradiction in terms and a denial of the very genius of the movement.

ACHIEVEMENTS

Incommensurate as the progress of the Indian co-operative movement has been with the hopes with which it was launched, it is impossible to concede that the effort has not been worth the money and effort which have gone into it. The moneylender, to be sure, was found by the Gadgil Committee in 1945 to be still 'the most important constituent of the agricultural credit machinery of the country',[69] but they declared that the credit he dispensed 'instead of contributing to the agricultural prosperity of the country serves as a serious drag upon it'. The Rural Credit Survey Report brought out the fact that the dominant role in rural credit in India is played by the moneylender, even now. The defenders of co-operation can, however, justly claim that it has helped to break the moneylenders' monopoly and brought interest rates down, having attracted considerable sums and made them available to those in need of credit at rates at least well below those of the moneylenders. Through its land mortgage banks it has facilitated the gradual redemption of the agriculturists from debt and has besides provided credit for the improvement of land. It has also, by its consolidation of holdings work and otherwise, promoted agricultural improvement and subsidiary industries, has impressed a portion of the people with the value of combined effort and of thrift; has aided members

in the purchase of their requirements and the sale of their products and in isolated instances has given a convincing demonstration of the possibilities of a concerted co-operative attack on many aspects of the small man's problem. It has, moreover, offered a large number of non-officials a very useful outlet for philanthropic energy.

Mr F. B. Wace wrote in 1939 of the movement in undivided Punjab that 'there is a sound core which has come through a period of severe trial with its spirit and its resources remarkably little impaired'.

The restoration of public confidence in the provinces and states where rehabilitation had been in progress, after the movement there had gone almost on the rocks, in itself showed the inherent viability of the movement where conditions are at all favourable.

That the co-operative movement is a factor to be reckoned with in the money market is obvious from the size of its working capital—in 1961–2 over Rs 1,534 crores. The co-operative societies have done much to meet the deficiencies of the Indian banking system. It is generally conceded that co-operation has done great good in spreading the banking habit and popularizing cheques and demand drafts.

The advantages of the societies in training their members in business methods and leadership go almost without saying. Many a peasant's greater independence today, contrasted with his former helplessness in affairs of business, must be credited in part to the co-operative societies.

The reduction of friction, reflected in the decrease among members of co-operative societies in the litigation to which the Indian cultivator has been so much addicted, may doubtless also be credited to the influence of co-operation.

The zeal which the unpaid officers of the co-operative societies often put into their task has been commented upon frequently. Mr R. B. Ewbank, a former Registrar in Bombay, has written:

> It is startling to discover how often the opportunity brings out the man and how freely the man spends himself and is spent when he sees a great goal before him, and is shown a path by which he may attain it. Such are the men with whom the future hopes of the movement lie.[70]

The Registrar in Punjab before partition recorded in one of his reports the case of a sixty-year-old retired military officer in that province who walked forty-two miles each way to represent his society at the general meeting of its central bank,[71] and in an unofficial comment on the incident, quoted aptly from *As You Like It*—

> O good old man, how well in thee appears
> The constant service of the antique world,
> When service sweat for duty, not for meed !

Lord Linlithgow, Chairman of the Royal Commission of Agriculture and later Viceroy of India, had said: 'Mere numbers are not a measure of success in co-operation. Quality is the test, and quality is to be measured as much by the extent to which membership improves the general outlook of the individual member, as by any betterment that it may effect in his economic condition.'[72]

Increased openness to suggestions for improved methods of production may be mentioned as an important by-product of the co-operative movement.

If, as suggested earlier, co-operative societies in general have not risen to the height of their opportunity for public service, there have been striking instances of particular societies transforming their villages and rendering all manner of contributions to the well-being of the community. It must also be entered to the credit of the co-operative societies that they have brought together on an equal footing people of different castes and creeds in an enterprise for their mutual benefit. This not only has encouraged a feeling of community of interest in the villages, and among industrial workers, but indubitably has represented a conspicuous contribution to national unity. If co-operation did not do as much as might have been hoped for in this direction, it at least has made its contribution to stemming the tide of divisiveness and communal friction.

DIRECT STATE AID AS AN ALTERNATIVE

We may consider briefly the different forms of direct state aid as possible alternatives to the co-operative movement for India, it being borne in mind that the choice is not between co-operation and governmental inaction in connexion with the pressing problems which the movement is attempting to help to solve. The problems are so urgent that *laissez-faire* is impossible for any democratic government. The choice is between co-operative finance and some form of direct government loans to individuals, of which the *taccavi* loans to agriculturists, under the Agriculturists' Loans Act, have been the commonest. The Gadgil Committee remarked that such loans were properly closely connected in their origin and their operation with times of distress or famine, and that all the committees had agreed that that Act should be confined to times of emergency and stress and not be used more extensively in normal circumstances.[73]

The legal basis for *taccavi* is provided by the Land Improvement Loans Act of 1883, concerned generally with long-term loans, and the Agriculturists' Loans Act of 1884, relating generally to short-term loans. An important recent development which has resulted in an expansion of *taccavi* loans is the grow-more-food scheme of the government and the inclusion of agricultural finance in the various forms of assistance given under a number of schemes in different states in connexion with the rehabilitation of displaced persons, particularly in Assam, Punjab and West Bengal.[74]

The total loans advanced directly to individuals by the state governments for agricultural production, land improvement, settlement of displaced persons on land (other than loans issued by the Rehabilitation Department) and relief of distress, came to Rs 40·98 crores in 1960–61 as compared with Rs 25·82 crores in 1957–8. Three state governments, namely Andhra Pradesh, Assam and Madhya Pradesh, have recently channelled *taccavi* loans through co-operatives to some extent. The amount thus provided came to Rs 1·08 crore in 1960–61 as compared with Rs 0·58 crore in 1959–60.

One objection brought against *taccavi* loans as a general

proposition is that raised by the Berar Co-operative Enquiry Committee, which pointed out that the vast business of financing agriculture in general would put too great a strain upon government finances. Another main drawback of the *taccavi* system is that it only furnishes cheap capital and makes no provision for cultivating thrift and self-help. The borrower has no interest in the welfare of his fellow-borrowers, no participation in profits, supposing there were any, and no control over the management.[75]

Loans cannot be advanced under either the Agriculturists' Loans Act or the Land Improvement Loans Act for either the redemption of old debts or the consolidation of holdings. There has, moreover, been widespread ignorance about the facilities for credit and the procedure necessary to secure *taccavi* loans,[76] which have been positively unpopular besides. This is attributed partly to the delay and uncertainty in getting the loan, due to the careful inquiries the administrative officials are required by the Act to make, and partly to the rigidity of the system of collection.[77] In short, the *taccavi* system is claimed to have failed in its primary purpose of stimulating agriculture.[75]

Dewan Bahadur K. D. Mudaliar explained the unpopularity of *taccavi* loans as due in part to the fact that gratuities had to be paid to government subordinates, whose favour must be gained at each step of the many necessary ones.[78] Other, and it is to be hoped more general, objections to state loans were cited by the Gadgil Committee, quoting the Irrigation Commission—the high rate of interest, the rigidity of collection, the onerous terms regarding periods of repayment and conditions relating to securities required.[73]

Additional objections to state loans have been cited by the late Professor V. G. Kale in connexion with the loans of the state agricultural banks in erstwhile Gwalior, that the loans being given there for short or long periods and in good or bad years gave the agriculturist little incentive to save in good years and encouraged reliance on the state at the expense of a self-reliant spirit.[79] There is no gainsaying that, as he pointed out, the co-operative societies hold greater potentialities, offering, besides financial assistance,

training in organized effort, education and cultural opportunities, for their members' economic, moral and social benefit.[80] It may be mentioned that the co-operative societies in Gwalior were handicapped by having inherited the debts of their agricultural bank predecessors, many of which proved impossible to collect.[81]

Direct state loans, moreover, may involve the state in a dilemma, as Dewan Bahadur K. D. Mudaliar pointed out. People were likely to take their indebtedness to the state more casually than debts to the usurious moneylender nor would they be subjected to the moral suasion of fellow-members of a co-operative society. It was 'more than probable', he said, that 'when widespread default in repayment becomes general sooner or later, the state must either write off its loan or be prepared to face the odium of selling up its peasantry, when it will be held up to public execration'. The danger that direct financial help from the government on a large scale would kill enterprise was also present, he declared.[78]

Whatever little may be said for *taccavi* loans as a substitute for the co-operative effort, it should be recognized that the offering of such loans for land improvement at lower rates than the co-operative land mortgage banks can offer constitutes a serious incursion into their legitimate field. Government loans are recoverable as arrears of land revenue and form a first charge on the properties of the borrower. Moreover, the rates of interest on government agricultural loans are invariably lower than the rates on loans given by co-operative credit institutions.

The Agricultural Credit Corporation proposed by the Gadgil Committee was not conceived as a substitute for co-operation, but as a supplement, to operate in areas where there are no co-operative societies and to encourage their formation. The Gadgil Committee saw no objection to co-operative societies discharging the functions proposed for the Corporation in provinces where the strength of the co-operative financing agencies permitted. The financial side of the movement was particularly strong in Bombay and its Provincial Agricultural Credit Organization Committee recommended that the co-operative financing

agencies, suitably reorganized, take on in Bombay, with state aid, the functions of the proposed Corporation, a recommendation which the government accepted.

The acceptance in that connexion of the policy of admitting 'nominal' members may prove an undermining influence. If the tangible benefits of co-operation are made available to some without the corresponding responsibilities being assumed by them, dissatisfaction on the part of members, especially of societies with unlimited liability, seems but too likely.[82] The danger to be avoided is that the co-operative movement may take on this large additional burden at the sacrifice of its principles.

There are numerous states where such a rapid expansion would be fraught with risk. It remains to be seen whether even in Maharashtra adequate heed will be given to the caution of the Nanavati Committee that the quality of the movement should be steadily maintained during the expansion, and that at no stage should the growth of the co-operative societies overreach the capacity of the organizational and management staff to look after them.[83] There seems little doubt, however, that the Nanavati Committee was right about the serious competition which an Agricultural Credit Corporation in Bombay would have offered to the co-operative movement there.[84]

Advances of seeds and manures to non-members as well as to members were provided for in the by-laws of the reconstructed credit societies in Bihar in connexion with the modified *Credit Agricole* scheme, put into effect there in November 1944. Under that scheme, the provincial bank, controlled by the government as a condition of its guarantee against loss incurred in its working up till 1951,[85] used the reconstructed central banks as agents for its loans. Loans to non-members were at a higher rate than loans to members, to encourage joining co-operative societies; also loans for cattle purchase, etc., were made only to members. The security for produce loans was the crop in hand; for other loans, the charge on the crop, coupled with the borrower's immovable property; no sureties were required. The scheme had, by the time of writing the Registrar's report for 1945,

improved the position of the provincial bank so much that it was expected to be capable not only of solving the problem of rural finance but also of placing itself and its central banks on a sound financial footing.[86]

The Egyptian scheme, on which that in Bihar was a variation, was said to have practically eliminated the usurious moneylender in Egypt by its low rates to the co-operative societies, which were passed on to members, though co-operation suffered from there being no incentive for societies to build up their own funds, and also from the bank's taking direct action to collect the loan.[87]

Subsequent experiences in the working of the *Credit Agricole* scheme in Bihar, however, have proved bitter. Indeed, in the words of the Rural Credit Survey Committee, the results of copying the *Credit Agricole* scheme by Bihar 'only just fell short of being disastrous'.[88] The scheme violated a basic principle, namely, that banking and trading cannot be safely combined in one institution. Recent information indicates that in Bihar the trading activities of the Bihar State Co-operative Bank have been transferred to the State Co-operative Marketing Union.

The Government of India set up in 1948 the Rehabilitation Finance Administration to give loans on reasonable terms to displaced persons to enable them to settle in business and industry. The period of loans was limited to ten years, the amount to Rs 5,000 and the interest rate to 6 per cent. Assets created from the loan were to be considered mortgaged to the Administration for repayment of the loan with interest. The aim was stated to be to provide greater credit facilities than the provincial governments' schemes for displaced persons and to assist all whose cases were not covered by the latter. Such a project as this, to assist a special group in the abnormal situation caused by the great exchange of populations following the drastic communal disturbances in 1947, was restricted to a special context and did not greatly affect the co-operative movement.

It seems apparent that none of the potential rivals of the co-operative movement is likely to be able to replace it or to confer benefits compensating for those that would be lost

if it were superseded. But if co-operation is the most promising and practicable of the possible alternatives, it will be well for co-operators to bear constantly in mind the fact that a co-operative society should not become a vested interest, but should provide a more efficient means of service to its members, especially the small cultivators.

Before concluding this section, we may refer briefly to some recent developments and opinions expressed regarding the system of *taccavi* in India. We may begin by referring to an aspect touched upon earlier in this chapter in the context of overdues of co-operative loans. We had said that to be quite fair to the co-operative movement, its overdues should be compared with the overdues of *taccavi* loans. It would appear that overdues of *taccavi* might be fairly considerable. The available data relating to some of the states are given in the following table,[89] the information relating to 1960–61.

(Rs lakhs)

State	Demand for the year	Percentage of overdues to demand
Andhra Pradesh	429·21	83·2
Bihar	1,117·59	91·6
Gujarat	230·25	59·8
Maharashtra	809·75	48·8
Madras	472·35	48·3
Uttar Pradesh	499·60	50·1
West Bengal	236·02	25·4

The Rural Credit Survey Committee has revealed that during the year of the Survey, namely 1951–2, the government provided only 3·3 per cent of the total borrowings of the cultivator. After a detailed examination of the position, the Committee came to the view that 'in practice, *taccavi* is apt to be little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency'. The record

of *taccavi*, said the Committee, is a record of inadequacies which were analysed under various aspects. In the words of the Committee, these were inadequacy of amount, inequality of distribution and inappropriateness of basis of security; inconvenience of timing, incidental delays, and impositions of various kinds on the borrower; and inefficiency of supervision and incompleteness of co-ordination.[93] The Committee underlined the fact that in the distribution of *taccavi*, there is considerable inequality against the small cultivator. The average borrowing of the big cultivator in respect of *taccavi* was about four times that of the medium cultivator and about ten times that of the small cultivator.

Against this background, the Rural Credit Survey Committee made various important recommendations on *taccavi* which are reproduced below.[94]

1. *Taccavi* should be strictly limited, subject to certain exceptions of a transitional character, to periods of widespread distress such as famine, scarcity, floods, etc.
2. There should be co-ordination between the system of *taccavi* and that of co-operative credit in times of famine and distress, as also in the context of provision of *taccavi* at specially low rates of interest (as compared with those charged by co-operatives) for certain specified productive purposes. In the former context, no distinction for purposes of *taccavi* should be drawn between members of co-operative societies and others. In regard to the latter, as far as possible, loans required by cultivators should be advanced at uniform rates of interest. Where, however, the government desires to advance loans for special purposes at concessional rates of interest, such concessional finance should be made available through co-operative institutions.
3. In areas where the co-operative machinery is either non-existent or is almost insignificant, *taccavi* for productive purposes is unavoidable. But the borrowers should, at the earliest possible moment, be encouraged to form themselves into a co-operative society by the adoption of a positive policy of co-operative development. Further, the policy of giving *taccavi* should be confined to distinct and compact areas and should not apply, for instance, to people within the territorial jurisdiction of a co-operative society who are not yet members of that society.

The First State Ministers' Conference on Co-operation held in New Delhi in April 1955 gave its qualified acceptance of these very important recommendations of the Rural Credit Survey Committee. The Conference adopted the following detailed resolution on the subject:[95]

While the programme of development of co-operative credit should be such that the place of *taccavi* is increasingly taken over by loans from co-operatives, there should be no attempt to restrict the volume of *taccavi* in circumstances in which corresponding or greater facilities are not provided by the co-operative organization; the aim should be that *taccavi* and co-operative credit together should replace a large part of private credit, rather than that co-operative credit should expand in replacement of *taccavi* where the latter is still necessary. A principle to be borne in mind is, however, that in the transitional stage, the different conditions stipulated or the rates of interest charged with regard to *taccavi* should, as far as possible, not be such that the development of co-operative credit is itself retarded, or the members of co-operative societies are disadvantageously placed *vis-à-vis* the non-members. This implies that there should be co-ordination between the rates of interest of *taccavi* and of co-operative credit. It also implies that where the non-member gets a loan at a subsidized rate for particular productive purposes from government, the same subsidized rate should also be available for the member of the co-operative society. Similarly, when *taccavi* is given on a liberal scale and at concessional rates of interest in times of famine, no person should be denied the advantage of those terms and rates merely because he is a member of a co-operative society. These and similar points of co-ordination should be attended to, to ensure that co-operative development is not retarded in the area in which *taccavi* and co-operative credit operate simultaneously. Further, *taccavi* should be so operated that if possible co-operative credit is positively developed as a result. For example, in areas not covered by co-operative societies, the disbursement of *taccavi* should be accompanied by efforts to organize co-operative societies in the areas. Similar measures of co-ordination with a view to positive development of co-operative credit should be designed and implemented.

The Second State Ministers' Conference on Co-operation held at Mussoorie in July 1956 recommended that the 'principal aim should be the maximum possible development of co-operative credit for the benefit of the agricultural producer and for that reason the place of *taccavi* in the integrated scheme should be such that it supplements the programme of expansion of co-operative credit and does not compete with it or impede it. It follows that in regard to their respective spheres of operation there should be complete co-ordination between the two systems, viz., *taccavi* and co-operative credit.'

The Reserve Bank's Standing Advisory Committee on Agricultural Credit has also stressed the need for co-ordination between *taccavi* and co-operative credit. In another context, while discussing the suggestion that a

mortgage executed in favour of a land mortgage bank should have priority over any subsequent claim of the government in relation to all *taccavi* loans, the Committee at its eighth meeting held in Bombay in February 1958 noted that 'a major solution of the problem would be the channelling of as much of government loan assistance as possible through the co-operative credit structure'.

Attempts in this direction have been made in Madras where a scheme was launched by the government in 1956 with the objective of making co-operative societies the sole credit agencies in the Erode *firka* in the Coimbatore District and the Srivilliputhur *firka* in the Ramanathapuram District. Subsequently, the scheme was extended to 19 more blocks by 1960–61. A feature of the scheme is the linking of credit with marketing. The loans provided by the co-operative credit societies are recovered by the marketing societies. It is claimed that the scheme has yielded encouraging results in the shape of increased membership and transactions of the societies included in the scheme. In 1958, the state government decided that in areas where the scheme was in operation, it would not issue loans direct to cultivators. This was modified later and it was decided that the government would continue to issue loans direct to cultivators in the areas covered by the scheme if such loans carried an element of subsidy or required technical supervision.

The question of co-ordination between *taccavi* and co-operative credit raises some complicated issues. It is obvious that in spite of its inadequacies, *taccavi*, as an aspect of the government's scheme of relief in times of scarcity, famine, etc., will have to continue. But *taccavi* for productive purposes need exist only as a transitional arrangement and even during this interim period, competition with co-operatives, in the rate of interest or in other ways, should be strictly avoided. Further, a clear declaration of the central and state governments' policy on *taccavi* seems to be called for. The Committee on Takavi Loans and Co-operative Credit, appointed by the Government of India, in its report published in 1962, has stated that there is consider-

able duplication in the matter of financing agriculturists under the prevailing system of direct government loans and the system of co-operative credit. The Committee has stressed the need for defining more clearly the respective roles of the two systems and for bringing about rationalization.

CONDITIONS OF SUCCESS

The first condition of success for the co-operative movement in India is integration, the fitting of co-operation into a co-ordinated effort to improve the condition of the masses. This has fortunately been achieved today. Co-operation forms an integral part of India's Five-Year Plans. Many of the measures necessary are beyond the unaided efforts of co-operation, such as those to check inflation, to stabilize prices of agricultural products, to introduce large-scale irrigation and land-reclamation projects, to provide for the retiring from cultivation of sub-marginal lands and for education, for medical relief and for the solving of a host of other problems which have been named as aspects of the many-sided need of the small farmer and the small industrial worker for relief and aid.

There is a measure of co-ordination in the approach to the cultivator's problem by different welfare agencies of the government, such as the departments dealing with co-operation, agriculture, sanitation, education, industries, public health and irrigation, but in many states there is unquestionably room for a closer linking of their efforts. The Madras Committee on Co-operation of 1927–8 proposed periodical conferences, at least once a quarter, of directing district officers of the Co-operative, Agricultural, Veterinary and Industries Departments and, where possible, of presidents of central banks and co-operative federations as well, to co-ordinate their activities,[96] an admirable suggestion, which is still valid, on which the states might well act. It goes without saying that the Co-operative Departments in all states should be eager to take advantage to the utmost

of any available co-operation in improving the status of the societies' members.

The failure to see the picture as a whole was responsible, for example, for such a slip as was made in Indore in failing to make special provision for co-operative debts in the debt relief legislation, which had adversely affected the movement in that state,[97] now part of the new Madhya Pradesh.

The enlisting by the co-operative effort of the sympathy and reciprocal co-operation of the panchayats, the traditional village authority for many centuries, now being revived in many sections from the virtual coma into which they had fallen under the centralized alien rule, is an important aspect of the integration effort. The Bombay Government took steps to facilitate a *rapprochement* between the societies and their villages by directing that the former provide under their by-laws for the appointment of rural development sub-committees to which representatives of the district rural development board would also be nominated to serve as a liaison between the board and the villagers.

The need for integration of the movement has arisen since co-operation was taken over by the provinces as a transferred subject in 1919. That need is now widely recognized and a variety of suggestions have been put forward. Shri V. T. Krishnamachari, presiding over the Madras Provincial Co-operative Conference on 28 October 1944, proposed an Imperial Council of Co-operation to study the problems connected with the movement, to serve as a clearing-house for information on the subject, to conduct research, train workers and advise the provincial governments. It should, he suggested, work in close harmony with the Imperial (Indian) Council of Agricultural Research. He envisaged similar joint councils in the provinces, on which all departmental officers dealing with village life would sit, and a 'Ministry of Development' in which all related activities would be centred. There is now a separate wing for co-operation in the Ministry of Community Development and Co-operation of the Government of India.

The Saraiya Committee in 1946 proposed an All-India Council of Co-operation,[98] in addition to provincial co-

operative councils,[98] and the Fifteenth Conference of Registrars appointed a sub-committee to evolve an All-India Co-operative Organization or Congress on the lines which that Committee had proposed. We have noted elsewhere that in pursuance of this recommendation, some states have established State Co-operative Councils.

The Saraiya Committee had proposed an All-India Co-operative Institute of Advanced Studies and Research and the All-India (National) Co-operative Union, since brought into being, has among its main functions the organizing of co-operative education, training and research. Research is needed if the co-operative movement is to profit by the experience of the past, and all too little is being done in that line, except by the Reserve Bank's Agricultural Credit Department and the Division of Rural Economics of the Economic Department in Bombay and by organizations such as the Indian Society of Agricultural Economics. The Reserve Bank's All-India Rural Credit Survey, initiated in 1951, may be mentioned in this context. The All-India Survey is now being supplemented by follow-up surveys. The main object of the follow-up survey is to evaluate the progress of the integrated scheme of rural credit of the All-India Rural Credit Survey Committee on which are based the co-operative development plans of the states. Research is a function which can best be conducted on a centralized basis, with the Co-operative Departments furnishing the facts and applying the findings, though there is ample scope for complementary local research projects, supported perhaps, as the Reserve Bank once suggested, from the profits of the state co-operative bank. Research findings on a local scale but of general value should be widely disseminated through the co-operative journals, to which factual and interpretative articles on co-operative ideals and developments in India and elsewhere might be contributed by official and non-official workers in the field. By serving as a clearing-house of projects and experiences they can not only help to obviate duplication of effort but also doubtless prevent the repetition of many a blunder. With a broadly sympathetic editorial policy,

an all-India periodical like the *Indian Co-operative Review* has an important role in uniting the different aspects of the movement in an organic unity.

It may be mentioned that the language problem in India is bound to lay increasing difficulties in the way of both research and the fruitful exchange of ideas. To be off with English before any Indian language is sufficiently widely known to be the common medium of educated people is to handicap both integration of effort and national unity, besides placing an almost insurmountable barrier in the way of inter-staff contacts and exchanges.

No less important is proper co-ordination of the different lines of effort within the co-operative movement itself. Agreement has to be reached and the lines have to be clearly drawn between the functions of education, propaganda, supervision, audit, execution of awards, etc. The allocating of responsibility for definite functions to specific agencies will help to obviate everybody's duty in theory being nobody's duty in practice.

The almost bizarre diversity of pattern in the alignment of co-operative activities throughout the subcontinent conveyed the inescapable impression of disregard of the truism that 'Before one builds a house, one makes the plan'. The co-operative movement in India, for all the sporadic assistance of the provincial governments in the past, seemed to a considerable extent, like Topsy, to have 'just growed'. To take one instance of a major state, namely Uttar Pradesh, an important sector of the movement represented by the co-operative cane unions is under an officer who is not subject to the Registrar's administrative jurisdiction; industrial co-operatives, similarly, are under an officer who is not controlled by the Registrar; and audit of societies under the Registrar is in the hands of the Finance Department. It is, however, reported that attempts are being made to rectify such an unco-ordinated development. In several other states too, the co-operative movement is not functioning as a coherent structure.

The comprehensive plans outlined by the All-India Rural Credit Survey Committee in its report represent the type

of thinking that should have gone into laying the foundations of the movement in this country. Co-operation in its modern phase did not originate with India and far more use could have been made in the past of the experience of other countries with it. The order 'Fire !' was given in very many cases before the range had been found.

One of the primary objects of an All-India Co-operative Institute of Advanced Studies and Research, as was proposed by the Saraiya Committee,[99] should be the objective evaluation of the present set-up in the light of experience here and abroad. It will be for the National Co-operative Union to sponsor such a project if it is in a position to undertake this responsibility.

Frankness in propaganda and thoroughness in co-operative education are important factors for success. In the education of all workers in the movement, the paid workers in the co-operative societies must not be overlooked. They need more than mere technical efficiency; they need to be imbued with the co-operative ideals.

Such a plan as that of the Committee for Co-operative Training should take care of the training of such workers along with that of departmental officials, but the urgent problem of member education will remain until the possession of adequate knowledge of co-operative principles by a certain percentage, say two-thirds or three-fourths, if not all of the prospective members, is made a condition of registration of a society. This requirement would take advantage of the first enthusiasm aroused by the propaganda effort, and the response would undoubtedly be better then than later, when the apathy of rural members particularly, to classes arranged for their benefit, has been complained of.[100]

The standards of such instruction of members should not be made so high that those of ordinary intelligence cannot follow it. The principles of co-operation are not so difficult that they cannot be simply conveyed. And certificates should be given on the passing of a simple examination, given orally to members or prospective members who cannot read and write. Such certificates should be required

at least for eligibility to office in the society. They are only less important than drivers' licences, which none object to having to secure.

This will obviously require a great increase in the number of non-official workers, but that will in itself be an advantage. The honorary worker who organizes a society might well be required to give its members the necessary grounding in co-operative principles. This is doubtless expected to some extent today, but it is important that the 'examination' be given by another honorary worker, or, better still, by a supervisor, to ensure that the teachings have been assimilated.

The record of the co-operative movement in India clearly shows that sound banking and business practices are indispensable to success, conditions practically impossible without patient effort on the part of departmental and non-official workers.

Hardly, if at all, less important, even to material success, is the building up of member loyalty and morale, for which a shift in the emphasis from expediency to the traditional co-operative ideal is required. Ultimately the social and economic emancipation of the underprivileged sections of the community involves, along with other factors, the strengthening of their own sense of duty. The sense of real human solidarity lies at the root of the elevation of the race, and member loyalty, like official probity, depends in no small measure on the inculcating of the higher and nobler conceptions of public as well as private duties which lie at the root of even material improvement.

The complaint of a Registrar of Co-operative Societies in his report for 1945–6, that agricultural credit societies 'are still looked upon in many quarters as mere agencies for the supply of cheap and facile credit and not as co-operative societies where the ignorant are taught the lesson of business and thrift and prudence',[101] is true even today and applies as well to other types of co-operation.

One of the reasons why the co-operative movement has been static is that co-operation has been regarded not as a philosophy of life but as a matter of convenience. The fact that

it had not sprung from the people was only a contributory cause. Taking mutuality in place of profit as the aim would make the movement vital. The question of loyalty would not then arise. Lack of proper understanding meant an inadequate spirit of service. The success of institutions such as the Triplicane Stores in Madras has been attributed primarily to members' loyalty.

Those who join the co-operative movement solely for what they can get out of it naturally cannot be depended upon to stand by their society longer than it pays them to do so, unless the co-operative ideal can be brought home to them. It is those possessed of the sense of human solidarity or convinced by co-operative education of the long-run benefits of co-operation to the group and to the nation who will support it through the periods when prosperity is in eclipse, the periods when member loyalty counts most. 'Co-operation', Mr F. L. Brayne has written, 'is not merely a matter of registers and entrance fees. It begins in the heart, and until it begins there it can never hope to be a success.'

Happily the co-operative movement in India is not without its records of members' standing by their society through a crisis at great personal loss.

The need of the co-operative movement for adequate support has been dealt with. A few points may, however, be added, as that the manner of extension of such support has its own importance. Shri J. C. Ryan, for long the Registrar of Co-operative Societies in Madras, who recently retired from the post of Chief Officer of the Reserve Bank's Agricultural Credit Department, saw no objection to 'a large measure of state aid to co-operative institutions so long as it is restricted to initial stages and so given as to stimulate the spirit of self-help and mutual help, without distinction of creed, caste or party'.[102]

The possibilities of a larger contribution from successful societies to the maintenance of an adequate departmental staff, through audit and supervision fees, court fees for arbitration decisions, etc., are, however, a matter to be borne in mind. As societies become stabilized it is most

desirable that they become progressively less of a drain on the public funds on the one hand and, on the other, that they gain the true co-operative spirit that sturdily insists as far as possible on paying its own way. The legal requirement in Maharashtra for regular contributions out of the profits of societies for co-operative education is a step in the right direction.

Service of the co-operative cause in any capacity is properly a vocation, not merely a job or even a career. But men of capability as well as of good-will are needed. Even in the lower ranks the pay should be sufficient to maintain a family in modest comfort; and a graded system of promotion should take into account attitude, effort and achievement and not merely seniority. A domineering official attitude may put a wholesome fear of authority into wilful defaulters, but it can never encourage members' initiative or make them receptive to the tedious training necessary to the success of their societies.

What is needed is a firm but not fanatical administrative hand. There must be insistence by the Co-operative Department on central societies putting their primary societies' interests ahead of their own profits; an *esprit de corps* must be fostered and competent honorary workers attracted and held in greater numbers; self-dependence and interdependence must be encouraged by promoting thrift and inculcating the co-operative spirit; the notion of compulsory co-operation has to be abjured. There must be careful supervision of new or weak societies or new projects of existing societies, but the time seems to have come for experimental relaxation of control over proved societies, subject to departmental check at perhaps lengthening intervals. The Fifteenth Conference of Registrars (1947) recommended that societies classified for three consecutive years as A or B be encouraged and increasingly left free to manage their own affairs to the maximum extent possible. Already in Maharashtra certain types of well-managed societies with a substantial working capital or turnover and classified as A or B may employ any professional auditor on the Registrar's approved list.

As for the propaganda effort, outstanding successes

advertise themselves as imitation spreads from village to village; but added publicity for them speeds up the process. Representation of the co-operative movement in the Central and State Legislatures does not seem to be the solution for getting the necessary support for the movement. Co-operation should be above party lines and the convincing of the members of all parties of the worth and promise of the movement would seem to be a better line of effort.

The standard of living of the masses has to be raised, and to this the co-operative movement can contribute much, but this needs care. India has something better in her ideology than the West's prescription for prosperity by the artificial stimulation of non-essential demand. Remove the shadow of want from the Indian village, by all means, but do not persuade people who would be contented with a healthy and normal standard of life, with the traditional ideals of plain living and high thinking and with a proper balance between work and leisure, that through ambition and the restless piling up of profits lies the way to happiness.

The broadening of the people's outlook by the furnishing of cultural opportunities to members and others would be a most useful supplement to co-operative effort on economic lines.

We cannot better close the consideration of the conditions for success of the co-operative movement in India than by recalling what Mr Lewis Mumford wrote in *The Condition of Man*, that the further spread of the co-operative movement in our day awaited 'a moral and spiritual regeneration at least as deep, as engrossing, as that which created the protestant personality'. Without such a moral change, he warned, 'co-operation is open to the attritions, diversions and dissipations resulting from the impulses it seeks to supplant; acquisitiveness and worldly self-seeking'.[103]

THE POTENTIAL CONTRIBUTION OF THE MOVEMENT

No solution of the problems of the Indian subcontinent which ignores or flouts the national psychology can hope

to succeed. An out-and-out materialist among its people is an anomaly—though there are some among those whom Western training has weaned from their ancestral attitude towards life, which for the Hindus is a stage in soul evolution. There is an underlying unity of outlook, despite the surface differences, between the Hindus and the Muslims of both India and Pakistan. Materialism can never conceivably be acceptable to the masses of either country. It is precisely because co-operation offers a way out that does no violence to tradition that it holds forth the greatest hope of ultimate success. The co-operative ideal is well suited to the genius of the people. 'Each for all and all for each' is in harmony with the Hindus' intuitive perception of the fundamental unity which underlies all apparent diversity as with the Muslims' belief in true democracy and universal brotherhood—and co-operation offers wide opportunities for mutual service. Co-operative planning can never lose sight of this background.

The Royal Commission on Agriculture concluded that 'if the rural community is to be contented, happy and prosperous, local governments must regard the co-operative movement as deserving all the encouragement which it lies within their power to give'.[104]

The conclusion of the Committee of Foreign Banking Experts appointed in connexion with the Indian Central Banking Enquiry Committee, which the latter heartily endorsed, is still valid today, for both countries. It was that 'The co-operative movement in spite of imperfections and of unavoidable setbacks deserves every possible assistance from all quarters, because there is no better instrument for raising the level of the agriculturist of this country than the co-operative effort, and a strong appeal to the banking interests of the country to assist this movement seems not at all out of place'.[105]

The Provincial Banking Enquiry Committees also, as well as the numerous committees on co-operation, have been unanimous in their conviction of the great potential benefits of the movement, though often critical of its development up to the time of their investigation.

Even the Berar Co-operative Enquiry Committee, which declared in 1939 that 'as an agency for the supply of cheap and productive credit and as a means of improving the lot of the agriculturist, co-operation has proved a broken reed', found no reason to believe the essential features of the system defective and believed it deserving of every assistance which the government could give without undue or unjustifiable risk to its own credit, prestige or position. The committee expressed its confidence that, 'given a reasonable amount of help, sympathy and guidance, the movement can yet be rehabilitated and be made available for the alleviation of the ills of the rural population in the countryside'.[106]

Obviously the picture drawn by the Co-operative Enquiry Committees or the individual investigators called in for expert diagnosis and prescription when the state of the movement in various areas had become precarious is no more representative of normal conditions in the co-operative movement than the case books of a psychiatrist are of the working of healthy human consciousness. The very fact, however, that the co-operative movement survived the vicissitudes in some of the areas worst affected during the depression proves that it is sound at the core. It should be unthinkable that all the valuable experience, sometimes so painfully gained, should be scrapped.

As the Reserve Bank remarked in its review for 1939–40, 'the very travail of the movement served to reveal that no better alternative was possible. . . . The movement for rural reconstruction can achieve real and durable results only with the co-operative ideal, and with a co-operative form and organization'.

Mr Hubert Calvert, former Punjab Registrar, wrote in 1939: '. . . other Departments can tinker successfully with problems affecting the whole province; they will never get beyond the tinkering stage without the machinery of the co-operative movement.'[107]

Mr Henry A. Wallace, a former Vice-President of the United States, called the co-operative philosophy 'the vital idea of the twentieth century that is bound to translate itself in time into the hard facts of social mechanisms and

reality. Nothing is more important than that more and more people become actively imbued with the idea of a co-operative society'.[108]

Accepted by the present Indian Government, the idea of a co-operative commonwealth, based on equality of rights and opportunity for all, if a larger ideal than the co-operative movement proper, yet includes the latter as part of its plan.

The Gadgil Committee remarked in 1945 that 'the spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and of those of the rural economy in general'.[109] About ten years later, the Rural Credit Survey Committee, after an exhaustive study of rural credit in India, came to the conclusion that 'co-operation has failed, but co-operation must succeed. The foremost objective of policy then becomes the positive and deliberate creation of conditions in which co-operative credit will have a reasonable chance of success.'[110]

Co-operation, which Gladstone well called a great 'man-making' world movement, holds the promise on the subcontinent of India of checking the trend to industrialization, of helping to solve the special problems of displaced persons as well as the larger problems common to the masses, of raising moral as well as economic standards, of teaching democratic procedure and of laying the foundation of a new social order based on co-operative welfare as contrasted with individualistic competition.

It can not only strengthen national unity but also, through closer links with such international co-operative bodies as the International Co-operative Alliance and the system of exchange of goods with co-operative societies in other countries, make its contribution to world peace.

The economic maladies which India and Pakistan inherited from the undivided country are numerous and some of the greatest economic disabilities, as we have seen, are admittedly beyond the reach of co-operative endeavour as anywhere at present conceived and undertaken. The economic trouble is deep seated and of long standing and full

recovery must be correspondingly gradual and slow. But long before economic health can be fully attained, some of the most painful symptoms can be mitigated. There are evils against which co-operation has demonstrated its effectiveness in some measure and indicated its still greater possibilities for the future. To name some of the chief of these, co-operation has helped to relieve poverty by reducing members' indebtedness, lowering interest rates, consolidating holdings, increasing productiveness and thrift, lowering the cost of necessaries to members, providing for the disposal of their products and discouraging unnecessary social expenditure; it has done something to raise the standard of living; it has increased the country's banking facilities; it has given the people hope. In all these directions and in others co-operation has made more or less progress although it has so far admittedly affected only the fringe of the situation.

Co-operation in India has not worked the miracle its original sponsors hoped for, but it has taken its place, important now and destined beyond a doubt to become far more so, among the constructive forces working for the economic regeneration of the country and the establishment of a sound national economy. If, in the light of the history of the co-operative movement in India, one's attitude towards it can be only one of chastened optimism, yet the evidence is conclusive that its furtherance merits the support of every friend of the people of India.

CHAPTER VI

RECENT DEVELOPMENTS

This last chapter deals with recent developments in co-operation, especially those relating to planning. The data relating to various types of co-operative societies given in the first section relate mainly to the co-operative year running from 1 July 1962 to 30 June 1963 as drawn from the Reserve Bank's *Statistical Statements Relating to the Co-operative Movement in India* for 1962–3 published in January 1965. More recent figures have been given to the extent they are available.

THE BACKGROUND

This section refers to the main aspects of the co-operative movement in India to serve as a background to what follows in the second section on planning and co-operation.

Primary Agricultural Credit Societies

Primary agricultural credit societies continue to be the most important part of the co-operative credit structure in India. There were 211,132 primary agricultural credit societies with a membership of 21,734,000 at the end of 1962–3 as compared with 215,081 societies with a membership of 19,572,000 in the previous year. The decrease in the number of societies is due to the policy followed in the states for reorganizing the primary credit structure by a process of amalgamation and liquidation of moribund societies. There were 39,129 societies which were dormant in 1962–3, forming 18·5 per cent of the total number of societies. The relevant percentage in the previous year was 18·9. Of the total membership, only 48 per cent borrowed during 1962–3 as compared with 51 per cent in 1961–2.

The total working capital of the primary agricultural credit societies in 1962–3 came to Rs 370·03 crores, represent-

ing an increase of Rs 44·70 crores over the previous year's figure. The total paid-up share capital of the societies was Rs 79·51 crores of which Rs 8·01 crores were subscribed by the state governments in respect of 13,476 societies. Deposits continued to remain at a low level. They totalled Rs 20·33 crores forming 5·5 per cent of the working capital in 1962–3. The primary agricultural credit societies continued to depend substantially on their central banks for their funds. Thus, out of total borrowings of Rs 248·10 crores in 1962–3, as much as Rs 236·43 crores were borrowed from central banks. Borrowings other than deposits constituted about 67 per cent of the working capital. Owned funds, i.e. share capital and reserve funds, formed 27·45 per cent of the working capital. The loans outstanding stood at Rs 302·78 crores, consisting of short-term loans of Rs 254·30 crores and medium-term loans of Rs 48·48 crores.

Out of the 211,132 societies, only 164,429 societies issued loans totalling Rs 257·37 crores in 1962–3 out of which Rs 232·18 crores were short-term loans and Rs 25·20 crores were medium-term loans. The total amount of loans recovered during 1962–3 came to Rs 210·95 crores. The loans overdue stood at Rs 77·18 crores and formed 25·5 per cent of the outstandings. The overdues showed an increase by Rs 14·25 crores during the year and the proportion of overdues in relation to outstandings increased by one per cent.

The operations of the primary agricultural credit societies are given in the following table:

(Amounts in Rupees)

Item	1961–2	1962–3
Membership per Society ..	91	103
Working Capital per Society ..	15,126	17,526
Share Capital		
(*a*) Per Society ..	3,190	3,766
(*b*) Per Member ..	35	37
Deposits		
(*a*) Per Society ..	820	963
(*b*) Per Member ..	9	9
Loans Advanced Per Borrowing Member	229	246

Apart from granting loans to members, primary agricultural credit societies continued to undertake certain non-credit functions relating mainly to the marketing of agricultural produce and distribution of agricultural requisites and consumers' goods. The number of societies which marketed agricultural produce in 1962–3 was 4,519 as against 4,185 in the previous year. The value of produce marketed by the societies increased from Rs 10·15 crores in 1961-2 to Rs 11·52 crores in 1962–3. The number of societies engaged in the distribution of agricultural requisites increased from 64,814 in 1961–2 to 75,769 in 1962–3. The value of goods distributed increased from Rs 39·13 crores to Rs 51·25 crores in the same period. The value of seeds and fertilizers distributed increased substantially, from Rs 5·87 crores and Rs 19·23 crores to Rs 6·03 crores and Rs 25·52 crores respectively. There was also a sharp increase in the value of consumers' goods distributed, from Rs 9·94 crores to Rs 14·07 crores.

The regional growth of the primary agricultural credit structure continued to be ill-balanced both in quantity and quality. Uttar Pradesh and Maharashtra accounted for 49,617 and 19,794 societies. The proportion of borrowing members to the total membership was the highest in Maharashtra at 64 per cent, followed by Madhya Pradesh (61), Gujarat (59), Andhra Pradesh and Punjab (56), Uttar Pradesh (53) and Jammu & Kashmir (52). It ranged between 30 and 50 per cent in Orissa (30), Rajasthan and Bihar (33), Mysore (40), Kerala (43), West Bengal (42) and Madras (40). The proportion was very low, at 9 per cent, in Assam.

The average membership per society was highest in Kerala at 452. It was 321 in Madras, 121 in Gujarat, 108 in Maharashtra, 150 in Mysore, 104 in Andhra Pradesh, 56 in West Bengal, 59 in Assam, 79 in Punjab and 83 in Uttar Pradesh. The average amount of loans advanced per borrowing member during 1962–3 was Rs 246 for the whole country with considerable variation between different states.

There are two special categories of primary agricultural

credit societies which need mention, namely large-sized credit societies and grain banks. It may be recalled that large-sized credit societies were formed as a result of one of the important recommendations of the All-India Rural Credit Survey Committee. Their further organization was stopped by the Government of India from April 1959 because of a policy decision not to have such large units. The number of large-sized societies decreased from 7,822 as on 30 June 1962 to 7,719 as on 30 June 1963. The fall in the number of societies was reported to be due to the schemes for reorganization and re-classification of such societies as service societies.

Grain banks provide loans in kind. Their number diminished from 9,190 at the end of June 1962, to 9,083 at the end of June 1963. Grain banks are an important part of the co-operative credit structure in Orissa, especially in the areas where the economy is not yet fully monetized. The loans advanced by grain banks for the whole country in 1962–3 came to Rs 3·08 crores as compared with Rs 2·54 crores in the previous year. The grain banks in Orissa accounted for the bulk of these transactions. The overdue loans of all the grain banks in the country at the end of June 1963 totalled Rs 2·43 crores, forming 46 per cent of the loans outstanding.

Central and State Co-operative Banks

Central co-operative banks form the intermediary organizations between the primary agricultural credit societies in the villages and the state co-operative banks at the state headquarters. The number of central banks declined from 387 at the end of June 1962 to 386 on 30 June 1963 because of the policy of amalgamation followed in the states. The membership of the central banks in 1962–3 stood at 399,299 consisting of 1,904 central societies, 252,963 primary societies and 144,432 individuals and others. There was a reduction in the number of individual members as compared with the previous year, to the extent of 3,327. This is in keeping with the accepted policy of gradually eliminating individual membership in central banks which are expected to function

as federations of the primary societies. The working capital of the central banks increased from Rs 352·65 crores as on 30 June 1962 to Rs 400·12 crores as on 30 June 1963. The owned funds, deposits, and borrowings formed 18·1 per cent, 36·4 per cent and 45·5 per cent of the working capital at the end of June 1963.

Out of a total working capital of Rs 400·12 crores at the end of June 1963, the working capital of central banks in Maharashtra was Rs 78·33 crores, while that of those in Madras was Rs 57·43 crores. The relevant figures were Rs 46·81 crores for Gujarat, Rs 46·91 crores for Uttar Pradesh and Rs 34·59 crores for Andhra Pradesh. The percentage of deposits to total working capital of central banks was the highest in Gujarat at 54 per cent, followed by Maharashtra (49·2 per cent), Punjab (41 per cent), Mysore (40 per cent), Madhya Pradesh (32·3 per cent), Uttar Pradesh (27 per cent), Madras (25·7 per cent) and Andhra Pradesh (19·7 per cent). The total loans advanced by all the central co-operative banks in 1962–3 came to Rs 440·56 crores. The corresponding figure was Rs 384·40 crores during 1961–2. Out of the total loans advanced by central banks in 1962–3, short-term loans came to Rs 416·32 crores and medium-term loans to Rs 23·35 crores respectively. The loans advanced by central banks in Maharashtra were highest at Rs 116·54 crores. Such advances came to Rs 76·08 crores in Gujarat, Rs 68·45 crores in Madras, Rs 41·81 crores in Uttar Pradesh, Rs 35·46 crores in Andhra Pradesh, Rs 27·22 crores in Mysore, Rs 23·62 crores in Madhya Pradesh and Rs 16·29 crores in Punjab. The loans outstanding of central banks at the end of June 1963 came to Rs 292·13 crores, of which Rs 288·69 crores were due from societies and Rs 3·44 crores from individuals and others. The loans overdue amounted to Rs 52·89 crores forming 18·1 per cent of the outstandings in 1962–3 as compared with overdues of Rs 40·74 crores and 15·7 per cent respectively at the end of June 1962. Out of 386 banks, only 30 banks had deposits exceeding Rs one crore and over. Of these 30 banks, 12 were in Maharashtra, 6 in Gujarat, 5 in Madras, 3 in Mysore and one each in Kerala, Andhra Pradesh, Madhya Pradesh and Punjab.

The number of state co-operative banks continued to remain at 21 in 1962–3, with a total paid-up share capital of Rs 23·18 crores. The total working capital of all the state co-operative banks increased from Rs 256·09 crores at the end of June 1962 to Rs 281·51 crores at the end of June 1963. The deposits increased from Rs 81·44 crores at the end of June 1962 to Rs 97·31 crores at the end of June 1963. Loans outstanding in 1962–3 came to Rs 214·09 crores as compared with Rs 196·51 crores in the previous year.

Central and Primary Land Mortgage Banks

A reference has been made so far to the operations of the short-term co-operative credit structure which also deals with medium-term credit. The provision of long-term loans is the responsibility of a separate structure consisting of central land mortgage banks at the state level and primary land mortgage banks at the taluka or sub-divisional levels. The primary land mortgage banks, though independent legal entities, are in fact disbursing agencies of the apex organizations. The number of central land mortgage banks increased from 17 in 1961–2 to 19 in 1962–3, owing to the setting up of a new central land mortgage bank in Jammu and Kashmir and the classification of the Tripura Land Mortgage Bank as a central land mortgage bank for the union territory of Tripura. The membership of the central land mortgage banks at the end of June 1963 consisted of 553 primary land mortgage banks, 177 other co-operative institutions and 371,901 individuals. Share capital increased from Rs 5·73 crores in 1961–2 to Rs 7·81 crores in 1962–3. The borrowings of the central land mortgage banks at the end of June 1963 totalled Rs 75·17 crores, out of which Rs 68·19 crores were in the form of debentures, as compared with Rs 53·20 crores and Rs 47·74 crores respectively at the end of June 1962. The loans outstanding in 1962–3 came to Rs 67·89 crores. Overdues totalled Rs 1·75 crores. The central land mortgage banks floated debentures of the value of Rs 21·76 crores in 1962–3 of which a sum of Rs 21·08 crores was taken up, consisting of Rs 18·85 crores of ordinary debentures and Rs 2·23 crores of rural debentures. The central land mortgage

banks advanced a sum of Rs 24·62 crores as loans in 1962–3 as against Rs 14·75 crores in the previous year. During 1962–3, Rs 13·36 crores were advanced for the improvement of land, Rs 6·78 crores for purchase of machinery and Rs 3·49 crores for redemption of debt.

At the primary level, there were 571 land mortgage banks at the end of June 1963. In some of the states such as Gujarat, Bihar and Uttar Pradesh, the central land mortgage banks finance individual members directly or through their branches. The total loans outstanding of the primary land mortgage banks increased from Rs 35·28 crores at the end of June 1962 to Rs 51·36 crores at the end of June 1963.

It will be noticed from the brief account of the co-operative credit structure given above that there are various weaknesses to be eliminated. First, the primary agricultural credit societies continue to remain weak in several states. The number of dormant societies at the end of 1962–3, was 39,129, forming 18·5 per cent of the total number. The problem, therefore, still remains of bringing into existence a viable and effective credit structure at the primary level. At the intermediate level, one important problem is in regard to supervisory personnel. In states such as Bihar, Punjab and Uttar Pradesh, the central banks do not have supervisory personnel of their own. They have to depend upon the government departments or others for the supervisory personnel, making it more difficult for the central banks to check the utilization of the loans given by them and their recovery on the due dates. Another problem relates to amalgamation. While the programme for amalgamation of central banks to have generally one central bank in each district has been fulfilled to a large extent, in some of the states such as Bihar, the amalgamated units maintain separate accounts and do not function as one coherent unit.

Next, as regards state co-operative banks, while their progress has been satisfactory, yet in several states they are not involved in the process of co-operative reorganization and reform. Much is expected of the apex banks by way of guidance and supervision. Indeed, if they are so minded, i.e. if the directors of the state co-operative banks and also,

of course, of the central banks, really take interest in this matter, there is much that the central financing banks can do to stimulate co-operative growth. In almost all the states, the state co-operative banks could also undertake larger responsibilities of inspection of central co-operative banks. In the states where the co-operative movement is relatively weak, a fruitful line of development would be for the state co-operative banks to lend the services of their trained personnel to work as managers or administrative officers of central banks. Without such active participation of the state and central co-operative banks in the programme of reorganizing the co-operative structure, it will be difficult, if not impossible, for that structure to be ultimately self-reliant and self-administered.

Next, as regards the structure for long-term credit, it was mentioned in the previous edition that land mortgage banking is practically undeveloped in India except in a few states and that the growth in these few states was partly accounted for by the prevalent pattern of land tenures, which enabled the mortgage of land by the agriculturist members to the land mortgage banks. It was also mentioned that these inhibiting factors were not present now and that there was vast scope for land mortgage banks in the provision of long-term loans, particularly for purposes connected with improvement and development of land for agricultural production. At the national level, one significant development since then has been the establishment of the Agricultural Refinance Corporation of India in 1963. This Corporation provides financial accommodation primarily of a long-term nature and can refinance central land mortgage banks for the purpose. A brief reference to the activities of the Agricultural Refinance Corporation has been made elsewhere in this chapter.

Some of the important problems facing land mortgage banks are the difficulties of getting adequate subscriptions to their debentures from the market and from institutional investors, the lack of trained staff, especially for valuation of land, the lack of concrete and well-thought out schemes of long-term lending, and the lack of co-ordination between land

mortgage banks and government departments dealing with schemes for agricultural production. Land mortgage banks, if properly used and developed, should form one of the main agencies for agricultural development in the country.

Other Activities

The other aspects of co-operation besides agricultural credit such as marketing, housing, milk supply and consumers' co-operation, need not detain us here since we have referred to them in detail in the previous chapters. But some figures for 1962–3 may be given for certain categories of societies.

Non-Agricultural Credit Societies

First there is the group of non-agricultural credit societies, consisting mainly of urban banks and employees' credit societies. There were 12,850 non-agricultural credit societies in 1962–3 as compared with 12,477 in 1961–2. Their working capital stood at Rs 185·32 crores in 1962–3, recording an increase to the extent of Rs 20·40 crores over the previous year's figure. The deposits of the non-agricultural credit societies in 1962–3 totalled Rs 115·39 crores as compared with Rs 97·31 crores for state co-operative banks and Rs 145·64 crores for central co-operative banks.

In May 1963, the Government of India appointed a study group to examine the working of co-operative societies in the non-agricultural credit sector and to recommend measures for their growth. The study group submitted its report in December 1963. The recommendations include those dealing with the need for a uniform definition of urban co-operative banks, the establishment of such banks in all towns and diversification of their loaning activities with suitable emphasis on advances for industrial purposes.

Co-operative Marketing and Processing

Apart from the National Agricultural Marketing Federation at Delhi, there were 21 state marketing societies in 1962–3 which sold agricultural produce of the value of Rs 9·38 crores both as owners and as agents, as compared with Rs 12·38 crores in 1961–2. The state marketing societies sold agri-

cultural requisites of the value of Rs 21·25 crores of which Rs 19·79 crores represented fertilizers.

There were 152 marketing societies functioning at the district or regional level in 1962–3, of which four were dealing in cotton, four in fruits and vegetables and the rest in agricultural produce in general. Many of these societies, especially in Madras, functioned as wholesale agencies for the primary co-operative stores. The value of the business done by the central societies in 1962–3 came to Rs 6·48 crores in respect of agricultural produce, Rs 21·32 crores for agricultural requisites and Rs 4·7 crores for consumers' goods.

At the primary level, there were 3,121 marketing societies in 1962–3, consisting of 96 societies dealing in cotton, 214 in fruits and vegetables, 21 in areca-nuts, 14 in tobacco, 61 in coconuts, 126 in other specialized commodities and 2,589 general-purpose societies. The total value of sales of these 3,121 primary marketing societies in 1962–3 added up to Rs 111·71 crores, of which Rs 70·17 crores were sold on an agency basis. Of the total sales, agricultural produce accounted for Rs 70·55 crores and agricultural requisites for Rs 26·83 crores. During 1962–3, the primary marketing societies advanced loans totalling Rs 2·99 crores to societies and Rs 22·91 crores to individuals and others. Linking of credit and marketing was attempted by 465 societies which recovered loans for Rs 5·64 crores advanced for production by 16,710 agricultural credit societies. Out of the 3,121 primary marketing societies, 1,641 societies earned a profit of Rs 1·16 crores; 1,049 societies incurred a loss of Rs 0·43 crore; and 431 societies made neither profits nor losses. The primary marketing societies had 2,417 godowns of their own with an estimated capacity of 65·56 lakh quintals and 2 lakh cubic feet. They hired 3,946 godowns.

There were 9,011 sugarcane supply societies consisting of one apex society in Uttar Pradesh, 69 central societies (all in Bihar) and 8,941 primary societies of which 8,743 societies were in Bihar. The value of sugarcane marketed by the central and primary societies was of the order of Rs 3·01 crores and Rs 38·35 crores respectively. Out of the total of

Rs 38·35 crores representing the value of sugarcane marketed by primary societies, Rs 33·38 crores were accounted for by societies in Uttar Pradesh. The primary sugarcane supply societies distributed agricultural requisites valued at Rs 4·73 crores as agents and owners.

The sugarcane supply societies in both Bihar and Uttar Pradesh present a big administrative problem. They are under the Cane Commissioner and not under the Registrar of Co-operative Societies. Further, the cane societies give production credit, thus creating problems of over-lapping of functions in relation to agricultural credit societies. In both the states it appears that the government has in principle agreed to transfer cane co-operatives to the administrative control of the Registrar, but this decision has yet to be carried out.

A most significant recent development in co-operative growth in India has been the success achieved by co-operative sugar factories. There were 66 co-operative sugar factories with a membership of 10,803 societies, 198,561 growers and 16,955 other members. They had a paid-up share capital of Rs 21·51 crores of which the share of the state governments was Rs 8·57 crores. The borrowings of the co-operative sugar factories at the end of 1962–3 came to Rs 42·47 crores of which Rs 11·26 crores were obtained from co-operative banks, Rs 3·30 crores from the State Bank, Rs 20·67 crores from the Industrial Finance Corporation and Rs 0·86 crore from the government. The number of co-operative sugar factories in production in 1962–3 was 39 as against 35 in 1961–2. The value of sugar produced by the factories increased from Rs 44·93 crores to Rs 47·80 crores and the value of sales from Rs 43·95 crores to Rs 64·98 crores during the years 1961–2 and 1962–3. It is noteworthy that the value of sugar produced by the 17 co-operative sugar factories in production in Maharashtra was Rs 29·82 crores, forming more than half of the value of sugar produced by all the co-operative sugar factories in the country.

Apart from co-operative sugar factories, there are other co-operative processing societies, consisting mainly of cotton-ginning and pressing societies, oil-crushing societies, and

paddy-husking societies. Out of the 134 primary cotton ginning and pressing societies existing in 1962–3, 76 were in Gujarat and 41 in Maharashtra. The co-operatives in Gujarat had 65 ginning units and 31 pressing units. Out of the total sales of co-operative cotton ginning and pressing societies in the country which amounted to Rs 11·08 crores in 1962–3, the societies in Gujarat accounted for Rs 10·46 crores.

Other agricultural processing societies came under paddy-husking other than rice-mills, rice-mills, oil-crushing, fruits and vegetables, and others. The number of primary societies with mainly growers as members in 1962–3 was 627, of which 84 were for paddy-husking other than rice-mills, 41 rice-mills, 135 oil-crushing societies, 17 fruit and vegetable societies, and 350 societies of other types. Their total sales came to Rs 75 lakhs and income from processing to Rs 14 lakhs.

Co-operative Farming Societies

There were 3,101 joint-farming societies in 1962–3 which cultivated 3·25 lakh acres. The value of production and of sales of the joint-farming societies came to Rs 1·37 crores and Rs 1·60 crores respectively in 1962–3.

There were 1,411 collective farming societies in 1962–3 which cultivated 1·55 lakh acres. The value of their production and sales came to Rs 0·60 crore and to Rs 0·63 crore respectively.

The Government of India has set up a committee to assess the progress of co-operative farming, under the chairmanship of Professor D. R. Gadgil.

Under the farming group, reference may be made to irrigation societies and fisheries societies in 1962–3. There were 1,466 irrigation societies which irrigated 1·53 lakh acres. There were 2,729 fisheries societies with 2·79 lakh members which advanced Rs 63·91 lakhs as loans to their members. The value of their catch and of sales came to Rs 1·21 crores and Rs 2·36 crores respectively.

Handloom Weavers' Societies

Handloom weavers' co-operative societies form the most important category under the industrial group of societies.

There were 20 apex, 114 central, and 12,598 primary weavers' societies in 1962–3. The value of cloth purchased and sold by the apex societies came to Rs 7·43 crores and Rs 11·69 crores. The value of cloth produced and sold by the central societies totalled Rs 0·68 crore and Rs 1·89 crores. The primary weavers' societies produced cloth worth Rs 45·80 crores in 1962–3, the value of sales in the same year being Rs 48·67 crores.

A useful recent development has been the setting up of co-operative spinning mills, which numbered 30 in 1962–3. They had 2·73 lakh spindles and sold yarn of the value of Rs 3·47 crores.

Consumers' Stores

Mainly as a result of a scheme sponsored by the Government of India in November 1962 to have a network of consumers' stores in cities and towns to bring about some check on prices, the consumers' stores movement has received a fillip. The number of wholesale consumers' stores increased from 32 to 100 and the number of primary stores from 7,266 to 8,407 during the period 1961–2 to 1962–3. The primary stores had 16·06 lakh members and 1,075 branches and a total working capital of Rs 10·47 crores. Their purchases and sales during 1962–3 were to the extent of Rs 36·14 crores and Rs 38·21 crores, respectively.

Housing Societies

In 1962–3, there were six state and 8,903 primary housing societies. The number of independent houses and tenements constructed by the primary housing societies came to 9,382 and 9,108 valued at Rs 8·24 crores and Rs 5·16 crores. The members of these societies constructed 12,167 houses valued at Rs 9·91 crores.

PLANNING AND CO-OPERATION

The most important developments in the sphere of planning in relation to the co-operative movement have centred

round the recommendations of the Committee of Direction of the All-India Rural Credit Survey (1954), popularly known as the Rural Credit Survey Committee, and the steps taken by the government and co-operatives to fulfil these recommendations.

The Rural Credit Survey and The Five-Year Plans

A reference was made in the fourth edition of this book to the All-India Rural Credit Survey initiated by the Reserve Bank in August 1951 on the recommendation of an informal conference of co-operators, economists, and administrators convened by the Reserve Bank in February 1951. The main object of the survey was to suggest long-term plans and policies in the sphere of rural credit and co-operation. The field inquiries of the survey were conducted in 1951–2, and *The General Report*, containing the recommendations of the survey, was published in December 1954. The most important finding of the survey was the utter inadequacy of co-operative credit. Even the meagre credit supplied by co-operatives mainly benefited the bigger cultivator and not the smaller cultivator. The total annual borrowings—short, medium, and long-term—of the cultivator were estimated at Rs 750 crores in relation to the period covered by the survey (1951–2). The report of the survey pointed out that what struck the eye at once was the startling inadequacy of co-operative credit. The proportion of borrowings of the cultivators to their total borrowings was 3·1 per cent from co-operatives, 3·3 per cent from government, 0·9 per cent from commercial banks, 14·2 per cent from relatives, 1·5 per cent from landlords, 24·9 per cent from agriculturist moneylenders, 44·8 per cent from professional moneylenders, 5·5 per cent from traders and commission agents and 1·8 per cent from others.[1]

The Rural Credit Survey Committee came to the conclusion that the causes for this utter inadequacy of co-operation and of co-operative credit lay within the movement and also outside it. The internal causes arose from factors such as the stress laid by co-operative societies on land as security for loans, the reluctance to admit small producers to the

benefits of co-operation, and the small and uneconomic scale of operations of primary credit societies. The more important causes, however, were outside the co-operative movement. These sprang from the unequal competition and opposition which co-operative societies had to face from moneylenders and traders who were in a powerful position, supported by a strong urban economy. If co-operation was to be given a chance to succeed and enabled to withstand the opposition of moneylenders and traders, the state should lend its helping hand, not, as hitherto, in administering them more and more, but in helping them actively with finance. In other words, the state should enter as partner in co-operation—in credit, marketing, processing and in other spheres. The alternative was for co-operation to continue to carry on its weak and ineffective existence, incapable of making any impression on the Indian rural credit problem which, in essence, consists of providing to the cultivator, especially the small cultivator, credit and complementary facilities for marketing, processing etc., at the right time, through institutions of their own, which are able to function in a flexible manner, suited to their requirements. The survey committee was also of the view that co-operative credit could not succeed without a corresponding development of co-operative marketing and processing. The entire scheme of the survey committee was known as the integrated scheme of rural credit, which was based on three fundamental principles, namely state partnership at different levels; full co-ordination between credit and other economic activities, especially marketing and processing; and administration through adequately trained and efficient personnel, who are responsive to the needs of the rural areas.

It was only after a thorough and detailed discussion, spread over a period of two years (1955 and 1956) that the recommendations of the survey committee were accepted by the central government, the state governments, the Reserve Bank and the co-operators of the country. Special reference should be made to the Second Indian Co-operative Congress held at Patna in March 1955 where the co-operators of

the country accepted the integrated scheme and laid down various safeguards to protect co-operative principles in the context of the coming of planning. The Congress emphasized that, so long as co-operative institutions functioned as instruments of state policy and received assistance in the form of contributions of share capital, loans, etc., state representation on the board of directors of the institutions would be desirable to ensure that the state policies were being carried out by the co-operative institutions. The Congress agreed to this, subject to the condition that such nomination by the state or by the higher co-operative institutions should not exceed three persons. Moreover, it was stressed by the Congress that such nominees need not necessarily be government officials or officers of the higher co-operative institutions. They may with advantage be experts and persons with special experience in co-operation. The Congress emphasized that the powers and rights of the government or its nominees should not be used for the internal administration of societies, appointment of paid staff, elections, etc. Financial losses, if any, resulting from the carrying out of schemes not included in the normal purposes of the integrated scheme, should be borne by the state. Further, the right of appeal against non-admission to membership of co-operative societies—which was one of the recommendations of the rural credit survey report—should be vested in higher co-operative organizations or in state co-operative institutes or unions.

India's Second Five-Year Plan (1956–61) endorsed the integrated scheme of rural credit and adopted its main provisions. The total financial outlay made for co-operative development in the Second Five-Year Plan was Rs 47 crores, of which Rs 4 crores was the share of the central government and Rs 43 crores that of the state governments, as compared with an allocation of Rs 7·11 crores in the First Plan, out of which Rs 50 lakhs were to be contributed by the central government and the balance by the state governments. Some details of the targets for co-operative development in the Second Plan were given in the fourth edition of this work, such as the short-term, medium-term, and long-term

credit targets of Rs 150 crores, Rs 50 crores, and Rs 25 crores. The number of primary marketing societies to be organized was 1,800 with 1,500 godowns. Besides, 10,400 large-sized credit societies were to be set up, equipped with 4,000 godowns.[2]

The Third Five-Year Plan, in its chapter on co-operation, has stated that in a planned economy pledged to the values of socialism and democracy, co-operation should become progressively the principal basis of organization in many branches of economic life, notably in agriculture and minor irrigation, small industry and processing, marketing, distribution, supplies, rural electrification, housing and construction, and the provision of essential amenities for local communities.[3] For the development of co-operation, the Third Plan initially provided Rs 80 crores.

PROGRESS UNDER THE PLANS

We may refer briefly to some of the important developments which followed the All-India Rural Credit Survey Committee's Report (1954) and the Second and Third Five-Year Plans.

General

To begin some figures showing the quantitative development of co-operative credit may be given. The data collected by the All-India Rural Debt and Investment Survey conducted by the Reserve Bank of India in 1961–2, show that the total borrowings of cultivator-households from all sources during the year of the survey, namely 1961-2, were estimated at about Rs 1,029 crores. The loans advanced by primary agricultural credit societies and land mortgage banks totalled Rs 244 crores, to which have to be added Rs 23 crores advanced by primary marketing and processing societies. The total of co-operative credit disbursed in 1961–2 thus came to Rs 267 crores or 25·9 per cent of the total borrowings of cultivator-households. This is a substantial increase compared tŏ 1951–2, when, according to the

All-India Rural Credit Survey, co-operatives provided only 3·1 per cent of the total amount borrowed by cultivators in that year, namely Rs 750 crores. It is significant to note that government loans and commercial bank credit for agricultural production have not recorded any progress. Thus, government loans formed only 3·9 per cent of the total borrowings of cultivators in 1960–61 as compared with 3·3 per cent in 1951–2. As regards commercial banks, the amount advanced by them for agricultural production, excluding advances to plantations, formed only 0·5 per cent of the total borrowings of cultivator-households as compared to 0·9 per cent in 1951–2. However, in spite of this quantitative increase, very much more remains to be done in the direction of having a well-balanced and effective co-operative credit structure. Available figures based on the All-India Rural Debt and Investment Survey (1961–2) show that the percentage of loans advanced by primary agricultural credit societies and land mortgage banks in 1961–2 to the total borrowings of cultivator-households in the same year was 23·7 for the whole country. Maharashtra topped the list with 55·2 per cent followed by Gujarat (40·6) and Madras (31·2). The proportion of borrowing members of co-operative societies to the total estimated cultivator-households in 1961–2 was 19·7 per cent for the entire country with wide state variations, ranging from 42·2 per cent in the Punjab, 34·9 per cent in Maharashtra, 30·3 per cent in Gujarat and 40·1 per cent in Madras to 8·4 per cent in West Bengal and 4·9 per cent in Bihar.

One interesting finding of the All-India Rural Debt and Investment Survey has been that for the whole country, only about 52 per cent of the cultivator-households reported any borrowings in 1961–2 and even if those who did not borrow during the year, but still reported indebtedness are also taken into account, the proportion was 65·8 per cent. Regarding co-operative credit societies, it is seen that only about 50 per cent, on an average, actually borrowed from their co-operative credit societies, the proportion of borrowing members varying from state to state. It was as low as 12·75 per cent in Assam. A fairly high percentage of

members borrowing from co-operatives is observed in Maharashtra (67), Madhya Pradesh (67) and Gujarat (65). It has been reported that factors such as some of the members not needing loans, defaults of earlier loans, inability to comply with formalities like production of revenue records and incapacity to satisfy prevailing tests of credit-worthiness, are responsible for non-borrowing members. It has also been reported that an important cause of the relatively low proportion of borrowing membership to total membership has been the fact that, in some states, a large proportion of the primary agricultural credit societies is moribund. Dormant societies accounted for about one half of the total number of societies in West Bengal, Rajasthan, Orissa, Manipur and Tripura and a little under two-fifths in Assam and Himachal Pradesh.

The average borrowing per borrowing member of a co-operative society was Rs 242 for the whole country in 1961–2 as against borrowing of Rs 393 per cultivator-household reporting borrowing from any source. Here again, there are wide variations among the states. The lowest levels are seen in Assam, Bihar, and Jammu and Kashmir. The average borrowing per borrowing member of a co-operative was Rs 347 in Maharashtra, Rs 446 in Gujarat and Rs 232 in Madras in 1961–2.

One of the important recommendations of the All-India Rural Credit Survey Committee was that co-operative short-term credit should be based primarily upon the repaying capacity of the cultivator and not on his landed property, that is, on the crop loan system. In several states, however, loans continue to be given by co-operative credit societies on the basis of the members' landed property.

The table below shows the progress of the main sectors of co-operation in the Five-Year Plans:[4]

Type of Society at the Base

An important aspect of the integrated scheme of the Rural Credit Survey Committee (1954) was the organization of large-sized credit societies at the village level, with limited liability and state partnership in share capital to enable the

Item	Beginning of First Plan (1950-51)	Beginning of Second Plan (1955-6)	Beginning of Third Plan (1960-61)	1961-2	Beginning of Fourth Plan (1965-6) Targets
1	2	3	4	5	6
Short and Medium-term Credit					
1. No. of societies (in thousands)	105	160	212	215	230
2. Percentage of villages covered	n.a.	n.a.	75	79	100
3. Membership (millions)	4·41	7·79	17·04	19·56	37·00
4. Percentage of agricultural population covered	8	15	33	34	60
5. Share capital (Rs crores)	7·6	16·8	57·7	68·6	118·0
6. Loans advanced (Rs crores)	22·9	49·6	202·7	228·0	530·0
Long-term Credit					
1. No. of primary banks	286	302	463	535	636
2. Loans outstanding with individuals (Rs crores)	6·6	13·5	37·7	49·5	150·0
Marketing					
1. Value of agricultural produce sold by co-operatives (Rs crores)	n.a.	n.a.	173·8	179·5	361·1
2. No. of sugar factories under production		3	30	41	56
3. Sugar produced (thousand metric tons)		30	450	480	880
4. Percentage of national production		1·4	14·8	21·6	25

(n.a. = Data are not available)

societies to borrow more from the public and the financing agencies. Stress was laid on the large-sized societies having a reasonably large membership and scale of operations to enable them to function as viable units, able to pay for efficient and trained secretaries and to provide effective banking services to the members. The Second Five-Year Plan (1956–61) provided for the setting up of 10,400 large-sized societies. There were about 4,470 large-sized credit societies in the country in 1957–8 set up by amalgamating small societies and organizing new large societies. The initial results of their working were good even though, in some states, the coverage of the societies was perhaps somewhat too large, a matter which could have been set right.

Unfortunately, a bitter controversy developed about the size of the society and a decision was taken by the Government of India to stop the organization of large-sized societies with effect from April 1959. This has been criticized on the ground that the decision to stop the organization of large societies was taken without adequate previous consultation either with the state governments or non-official co-operative opinion.

The subsequent period from 1958–9 up to about 1960–61 was characterized by a great deal of confusion regarding the size of the society at the primary level. In November 1958, in its resolution on co-operative policy, the National Development Council indicated that co-operatives should be organized on the basis of the village community as the primary unit, but where villages were too small, with the consent of the communities concerned, it would be convenient to form them into larger groups with a population of about 1,000.

For the controversy to settle down, one had to wait for the Report of the Committee on Co-operative Credit (1960) under the chairmanship of the veteran co-operator Shri V.L. Mehta. This report emphasized that the co-operative aspect was as important as that of viability and that the co-operative society could not afford to enlarge itself into an impersonal institution. The report pointed out that the membership should not be too large nor the area too extensive. No village included in the jurisdiction of a society should be at a

distance of more than three or four miles from the head-quarters village. The majority of the members of the Committee were of the view that the population covered by a society should not exceed 3,000, i.e. 600 families or 500 cultivating families.[5]

This formula regarding the size of the society at the primary level was generally accepted but valuable time was lost in this ideological controversy which confused the field staff.

At present, therefore, the co-operative development plans deal mainly with primary credit societies of the type suggested by the Committee on Co-operative Credit. These societies are usually called 'service co-operatives' to underline their functions of not only credit but also non-credit, such as supply of agricultural requisites, consumers' goods, etc.

The question of ensuring the growth of viable co-operative credit societies was discussed at the conference of state ministers of co-operation held in June 1964 at Hyderabad and it was recommended that the following minimum criteria for determining the viability of a primary credit society might be adopted, namely ability to (*a*) have a regular office, (*b*) appoint a full-time paid secretary, (*c*) contribute to reserve funds on the scale considered necessary, and (*d*) pay a reasonable return on capital. The conference suggested that the state governments should undertake a survey of the existing primary credit societies to identify viable and potentially viable societies, the rest of the societies being either amalgamated or liquidated. It is necessary that this work should be completed quickly. Some general comments may be made in this context. First, flexibility is needed in the application of these general standards and the field staff have to be consulted fully and guided by the Registrar. Basically, two fundamental questions will have to be answered: (*a*) will the proposed society be co-operative in character, that is, will its members have easy access to it and (*b*) will the proposed society function as a viable unit ?

Second, as regards existing societies which are covered by schemes for amalgamation, revitalization, or liquidation, the position of each and every society will have to be

examined carefully by the field staff. It will be ruinous to liquidate societies based on a general scheme and by looking merely at the percentage of overdues. The percentage may be very high, but the amount may be very small. In amalgamating societies, great care is necessary to prevent friction. Good societies should never be disturbed. Further, compulsory amalgamation is generally undesirable. It is contrary to the principles of co-operation.

Third, with the large number of dead or inactive societies accounting for about 19 per cent of the total number of primary credit societies in 1962-3, the need for pushing through schemes for revitalisation, amalgamation, and liquidation is paramount. This has to be a conjoint effort between the co-operative departments and the co-operative banks. Central co-operative banks have a crucial role to play in accomplishing this task.

Progress of Co-operative Financing Banks

In many directions, progress has been made in reforming the co-operative credit structure at the apex and intermediary levels. Substantial state partnership in share capital of these higher financing agencies has been an important part of the co-operative development plans. Such partnership enables the banks to borrow more from the public and their higher financing banks because the general rule is that a central bank can borrow up to ten to twelve times its paid-up share capital and reserve fund and a state co-operative bank up to fifteen times. This partnership by the state governments is expected to be supplemented by efforts by the banks to attract more share capital for their members. The contributions made by the state governments to the share capital of state co-operative banks increased from a little over Rs 0·70 crore in 1953-4 to Rs 2·20 crores at the end of June 1957 and to Rs 8·63 crores at the end of June 1963. As regards central banks, the total amount contributed by the state governments to their share capital increased from Rs 1·26 crores on 30 June 1957 to Rs 14·98 crores on 30 June 1963. The relevant figure in the case of primary agricultural credit societies was Rs 8·01 crores on 30 June 1963. In the

case of primary credit societies, the plans provide for retirement of government shares. However, in the case of apex and central co-operative banks, government's participation is expected to continue until such time as the societies at the base have been given full support.

Apart from state participation in share capital, an important aspect of the plan is the reorganization of small and uneconomic central banks so as to have one strong central bank generally for each district which can approximate to certain standards prescribed by the Reserve Bank's Standing Advisory Committee on Agricultural Credit, namely paid-up share capital and reserves of about Rs 3 lakhs and working capital of about Rs 20 to 25 lakhs per central bank. These standards were laid down in 1952. At the twenty-eighth meeting of the Standing Advisory Committee held in Bombay on 7 January 1965, certain revised standards were agreed to in view of the larger scale of operations of the co-operative credit structure. The conclusion reached was that an average of Rs 1 crore of outstanding loans represented the minimum level of business necessary for a central bank under present conditions to render efficiently the services expected of it.

We have yet to deal with recent developments, in the context of planning, with regard to the long-term credit structure, consisting of central land mortgage banks and primary land mortgage banks. We have referred in the first section of this chapter to the very undeveloped state of land mortgage banks in India and its scope for development. The structure itself is still in the process of being built up in states such as Bihar, Kerala, Punjab and West Bengal, where new central land mortgage banks have been registered in recent years. In Assam, the new central land mortgage bank has heavy overdues and is in a bad way. A general problem faced even by the well-established central land mortgage banks, such as those in Andhra Pradesh, Maharashtra, Gujarat and Madras, has been the scarcity of resources for their expanded credit programmes. Debentures guaranteed by the state governments are their mainstay for their working funds, but enough funds have not

been forthcoming as subscriptions to these debentures from sources such as commercial banks and other institutional investors. According to the general practice followed, the Reserve Bank contributes up to 20 per cent of the ordinary debentures issued by the central land mortgage banks or the shortfall in public subscriptions, whichever is less. The State Bank subscribes up to 10 per cent and the Life Insurance Corporation up to 30 per cent, subject to a total limit of Rs 6 crores per year. The balance of 40 per cent is contributed by central land mortgage banks from their sinking funds and also by state co-operative banks, central co-operative banks, private individuals and other investors. For the programme of floating Rs 40 crores of debentures in 1965–6, various difficulties have been reported, mainly due to the inability of the co-operative institutions to mobilize adequate resources and the inability of the public sector institutions to extend larger assistance. Perhaps it may be necessary for the central and state governments to come forward with assured support to the debentures, if the credit programmes of the land mortgage banks are to be fulfilled.

Land mortgage banks have first of all to accumulate mortgages to float debentures. For this, they have been relying on short-term interim accommodation from the state governments, the state co-operative banks and the State Bank. Here also, they have been finding it difficult to to get enough funds, particularly from the state governments.

On this question, the Reserve Bank's Standing Advisory Committee, at its sixth meeting held in February 1957, recommended that the short-term credit requirements of central land mortgage banks should be provided by the state governments or, where possible, by the state co-operative banks on government guarantee. The Committee suggested that other means of augmenting their resources such as larger state contribution to share capital and more frequent issue of debentures might be explored. The Committee stressed that land mortgage banks should make preliminary arrangements with various institutional sources before their debentures are floated and that the terms of the debentures should be in line with money market conditions.

A Technical Committee on Land Mortgage Banks (1957), set up by the Reserve Bank, accepted these recommendations and added that the State Bank might grant short-term accommodation to central land mortgage banks against the guarantee of the state government. The Technical Committee emphasized that unless institutional sources such as the Reserve Bank, the State Bank, the Life Insurance Corporation and the government came forward with substantial help, land mortgage banks would have to restrict their lending programmes considerably, even if the loans were to be devoted primarily to productive purposes. It may be noted that the target for long-term loans outstanding at the end of the Third Plan is Rs 150 crores.

One way suggested by the Standing Advisory Committee for increasing the resources of the central land mortgage banks is larger government contribution to their share capital. The amount of such contribution increased from about Rs 0·19 crore in 1956-7 to about Rs 4 crores in 1962–3. This will not be a permanent solution because there is a limit up to which the share captial can be increased in this manner. The more important question, therefore, is that related to issue of debentures by central land mortgage banks by mobilizing their own resources to the maximum extent.

In the past, land mortgage banks used to issue loans mainly for clearance of debts. The emphasis has now definitely been shifted in favour of giving loans for productive purposes. Central land mortgage banks are, therefore, issuing debentures for short periods, e.g. eight to 15 years.

In connexion with these developments in land mortgage banking, reference should be made to the scheme for rural debentures recommended by the All-India Rural Credit Survey Committee (1954) and worked out in detail by the Reserve Bank in 1957–8. The main features of the scheme, which is now in force, may be mentioned. Central land mortgage banks will provide loans for periods extending up to 15 years by issuing a series of rural debentures divided into two parts. One part for seven-fifteenths of the total will be for seven years, to be made available for subscription by the

rural public, and the remaining part for 15 years (that is, eight years beyond the period fixed for the public) will be offered to the Reserve Bank. With the ratio of 8:7 as the outside limit, so far as the Reserve Bank's share of the contribution is concerned, central land mortgage banks are free to suggest a different scheme which would suit their requirements. Subscriptions to the first part of the rural debentures will be accepted only from individuals and not from any institutional investors. The Reserve Bank has agreed to accept a lower rate of interest. What was originally 4 per cent per annum has been increased to 4¼ per cent since 1 July 1964 on the debentures allotted to it so that higher and more attractive rates could be offered on that part of the rural debentures issued for rural investors. The amount of rural debentures floated by central land mortgage banks increased from Rs 0·75 crore in 1957–8 to Rs 1·85 crores in 1963–4. The amounts subscribed by individuals and by the Reserve Bank have risen from Rs 0·34 crore and Rs 0·27 crore in 1957–8 to Rs 0·43 crore and Rs 0·50 crore in 1963–4, the figures for 1963–4 not being complete. The Reserve Bank contributes to rural debentures from the National Agricultural Credit (Long-term) Operations Fund. The scheme for rural debentures has not been popular. For instance, the third annual report (for the year ending 30 June 1964) of the Andhra Pradesh Co-operative Central Land Mortgage Bank points out that factors such as meagre surplus savings in the rural areas, and competition of other agencies such as commercial banks and national savings agencies are responsible for the poor response to the scheme of rural debentures.

Various procedural aspects of land mortgage banks have come up for re-examination. For instance, hitherto a rigid correlation was insisted upon between the period of debentures and the period of loans. The orthodox view has been that a strict correlation is necessary. If it is broken, difficulties will arise in meeting the liability to the debenture holders. Reliance cannot be placed on the general resources of the land mortgage banks for meeting this liability because there are other demands on such resources such as interim

finance and re-loaning to the extent permitted. Critics of this view point out that rigid correlation cannot be maintained because of the need to make more productive long-term loans, with assistance from the state such as contribution to share capital of central land mortgage banks and guarantee of their debentures. Another procedural issue which has been debated lately refers to the maintenance of sinking funds. One view is that it is not necessary to maintain a separate sinking fund for each series of debentures.

These issues were considered at the sixteenth meeting of the Reserve Bank's Standing Advisory Committee on Agricultural Credit held in September 1960. On the question of correlation between the period of debentures and the period of loans, the Committee agreed that a limited deviation from the rule of maintaining a strict correlation between the period of loans and the period of the debentures might be permitted, after other methods were exhausted, in the case of banks which had a good record of collecting their dues and had satisfactory owned funds. On the question of filling up sinking funds, the Committee was of the view that, as a general rule, sinking funds for each series should be filled to the brim. But in exceptional circumstances and with necessary safeguards, the sinking fund contributions in respect of a series should accumulate over the period of its maturity to at least 75 per cent of the amount of the series. The Committee also agreed that sinking funds need not be created for each series, but that there might be a common sinking fund for all the series and that the balance to the credit of this general sinking fund may be utilized for retiring any maturing series.

Developments Relating to Co-operative Marketing and Processing

A vital part of the integrated scheme is the link between co-operative credit and co-operative marketing. This is because the source for the recoveries of the loans for production given by the primary credit society is the marketable surplus of the borrowers' produce, particularly if the borrowers do not own lands but are tenants, etc., financing whom is one of the important objectives of the scheme.

The marketable surplus should be delivered to a co-operative marketing society so that the loans given for production by the primary credit society can be recovered on the due dates. The primary credit society will give loans for production to a member, one of the conditions of the loan being that he agree to deliver the produce raised with the loan to the marketing society to which the credit society is affiliated. The marketing society will recover the loan for production given by the credit society out of the money realized by the sale of the produce or out of any loan it may advance to the member on the security of the member's produce kept in its godowns. The operations of the credit society and marketing society are thus linked together. The credit society will have some ancillary functions to perform in marketing, such as assembling the member's produce and collecting it in sizeable lots for transportation to the affiliated marketing society. The marketing society, of course, will require godowns to provide storage for its members' produce until sale or to enable the granting of loans on the pledge of the stored produce or for keeping the produce which the marketing society has itself purchased. All this looks easy on paper, but is extremely difficult to carry out. The success of the linking between credit and marketing depends upon a number of factors such as the nature of the crops grown in the area (e.g. whether the crops are consumed or there is a surplus, or whether the crops grown are cash crops), the level of managerial efficiency of the societies, the interest taken by the managing committee members of the societies and the promotional and educational work done by the central co-operative bank and the local departmental staff of the area. For the whole country, 465 marketing societies recovered loans amounting to Rs 5·64 crores in 1962–3 advanced by 16,710 agricultural credit societies.

An event of significance to co-operative marketing was the setting up by the central government of the Food Corporation of India in December 1964, with headquarters in Madras, for the purchase, storage, movement, transport, distribution and sale of foodgrains and other food-stuffs.

It is to be hoped that the operations of the Food Corporation would be such as to actively help and assist co-operative marketing societies by means such as appointing co-operative marketing societies as their agents for collecting foodgrains.

Another recent event of significance to co-operative marketing has been the establishment of an Agricultural Prices Commission by the Government of India in 1965 to advise the government on agricultural policy and the agricultural price structure. It is well known that if remunerative prices are assured to the agricultural producer by an appropriate price support scheme, co-operative marketing can function in a favourable atmosphere.

The Intensive Agricultural District Programme

An important recent development of significance to the co-operative movement has been the launching by the central government of the Intensive Agricultural District Programme. This programme is called the Package Scheme because the full food production potential can be realized only when all the essential elements are combined into an integrated programme. The scheme was the outcome of certain proposals made by Dr. Sherman Johnson, chairman of the Agricultural Production Team sponsored by the Ford Foundation in 1959 to report on India's food crisis and steps to meet it. Initially, when the programme was launched in 1960, seven districts were selected. These were Aligarh (Uttar Pradesh), Ludhiana (Punjab), Pali (Rajasthan), Raipur (Madhya Pradesh), Shahabad (Bihar), Thanjavur (Madras), and West Godavari (Andhra Pradesh). The selection of the districts is on the basis of the following criteria: (1) They have, as far as possible, an assured water supply. (2) They have the minimum natural hazards such as floods, drought, soil erosion, etc. (3) They are important from the point of view of the main food crops. (4) They have, as far as possible, well-developed village institutions such as co-operative societies and panchayats. (5) They have maximum potentialities for increasing agricultural production in a comparatively short time. In these districts, all the elements required for increasing agricultural production

will be simultaneously provided. This is a package of practices and procedures, i.e. (*a*) extra staff will be provided; (*b*) fertilizers, insecticides, pesticides, agricultural implements, improved seeds etc., will be supplied; (*c*) the marketing societies through which the produce raised should be sold would be selected; (*d*) godowns would be provided for these marketing societies; (*e*) a minimum price was expected to be guaranteed by the government; (*f*) additional transport would be provided; and (*g*) a bench mark survey would be completed. Co-operatives have been assigned a key role in the programme for provision of credit for production, supplies, and marketing.[6]

Subsequently, the programme was extended to one district in each of the remaining states excluding Kerala, where two districts were selected. These districts were Mandya (Mysore), Surat (Gujarat), Sambalpur (Orissa), Palghat and Alleppey (Kerala), Burdwan (West Bengal), Bhandara (Maharashtra), Cachar (Assam) and six blocks in Jammu and Kashmir.

By the end of 1963–4, the programme had covered 245 out of a total of 303 National Extension Service blocks in the selected districts. An official review points out that while 'the full impact of the Package Programme would be realized only over a period of years, the results achieved during the brief period it has been in operation in the 16 districts have more than proved the soundness and validity of the package concept—the use in agriculture of interrelated factors—physical, social, and institutional and in such combinations as are likely to produce an upward trend in agricultural production'.[7]

A modified form of the Package Scheme called the Intensive Cultivation Programme came into operation in March 1964. The aim of this programme is to increase the production of paddy, wheat, millets, and pulses in selected areas with a high production potential. During 1965, 75 districts, covering 646 blocks, were selected for implementation of this programme in respect of paddy; 53 districts, covering 353 blocks, were for millets and 30 districts, covering 200 blocks, were for wheat.

An action programme for co-operative credit in the districts selected for intensive agricultural development was circulated to the state governments by the central government in March 1964.[8] The salient features of the programme are the following:

(*a*) Credit should be production-oriented and should be determined on the basis of needs and repaying capacity. Disbursement and recovery of credit should follow the seasonal pattern in the area.

(*b*) Primary credit societies should increase their share capital and collect compulsory thrift deposits.

(*c*) A quick study should be undertaken to identify potentially viable societies. Efforts should be made to make them viable in a specified period. Societies which are not likely to be viable should be reorganized through amalgamation. Defunct societies should be liquidated.

(*d*) Central co-operative banks should be strengthened. Their operational efficiency should be improved. They should supervise the primary credit societies.

(*e*) The state governments should intimate to the Reserve Bank the districts selected for the programme so that the Bank may undertake a special inspection of the banks with particular reference to the requirements of the programme.

(*f*) Overdues should be arrested. The habit of prompt repayment of loans on the due dates has to be developed and procedures laid down for dealing with defaulters should be set in motion without fear or favour.

(*g*) Co-operative marketing should be intensified and organically linked with the credit programme.

(*h*) An adequate staff should be appointed in the co-operative departments and co-operative institutions, for which financial assistance from the central government will be available on the existing pattern.

It is reported that only some states have taken action on the above lines. This is a complex and difficult task and

much depends on the quality, quantity and enthusiasm of the local field staff. For instance, it is not easy to make credit production-oriented. A great deal of educational effort at the local level is necessary and co-operative leaders and workers and co-operative banks have to take keen interest and initiative in view of the nature of the problem which, in substance, is the change-over from traditional static credit based on land to dynamic credit based on the cost of materials for increased agricultural production. Patient and persistent work is necessary at all levels and guidance and aid from the government are essential, including personal direction by the senior officers.

It may be mentioned, before concluding this brief account of the Package Scheme, that some of the main problems which have arisen in its working are : (*a*) the policy to be followed with regard to the financing of defaulters of co-operative loans; (*b*) how non-members are to be financed; (*c*) removal of the restrictive features of the loaning policies of co-operative banks and societies; and (*d*) winning the confidence of the cultivator and enlisting him in the programme as an active participant.

THE ROLE OF STATE AND STATE-ASSOCIATED AGENCIES

In this section, reference is made to the role of state and state-associated agencies in the plans for co-operative development.

The Reserve Bank of India

In the plans for the reorganization of the co-operative credit structure referred to in the preceding paragraphs, the Reserve Bank of India continues to play a leading role. Commenting on this aspect, the Rural Credit Survey Committee (1954) emphasized that the role of the Reserve Bank in the integrated scheme of rural credit is of crucial importance; it represents a natural and logical evolution and it adds to the Reserve Bank's strength, soundness, and

ability in the discharge of its wider functions as the central bank of the country.

A dynamic policy in the sphere of rural credit and co-operation was initiated by the Reserve Bank in 1951 following the recommendations of the Rural Banking Enquiry Committee (1950) and the Informal Conference on Rural Finance convened by the Reserve Bank in 1951. The more important aspects of this policy related to various procedural changes enabling state co-operative banks to borrow more freely from the Reserve Bank and arranging for the preparation of interim reports on the co-operative credit movement in practically every state in India based on local studies by its officers and containing schemes for reorganization, an important part of which was state partnership in co-operative apex financing banks. In 1953 the Bank, in conjunction with the Government of India, initiated a country-wide scheme for the training of co-operative personnel under the auspices of a Central Committee for Co-operative Training. Further, according to the amendments introduced in the Reserve Bank of India Act in 1951, state co-operative banks were placed on the same footing as scheduled banks in regard to the purchase, sale, or re-discount of bills of exchange and promissory notes arising out of *bona fide* commercial or trade transactions under section 17(2)(*a*) of the Reserve Bank of India Act. According to an amendment of section 17 (2)(*b*), the period of accommodation for seasonal agricultural operations and marketing of crops was raised from nine months to 15 months.

According to further amendments introduced in 1953, the scope of section 17(2)(*b*) of the Act was widened to give a broad interpretation to the terms 'agricultural operation', 'crops', and 'marketing of crops' so as to include mixed farming activities within its purview, that is, activities undertaken jointly with agricultural operations and the processing of crops prior to marketing by agricultural producers or any organization of such producers. Further, a new section, section 17(2)(*bb*), was introduced in the Reserve Bank of India Act, enabling the Bank to rediscount bills of exchange or promissory notes of state co-operative

banks and state financial corporations drawn for the purpose of financing the production or marketing activities of cottage and small-scale industries approved by the Bank, and maturing within 12 months, provided the payment of the principal and interest of such bills of exchange or promissory notes is guaranteed by the state government. Further, in 1953, a new section was added enabling the Reserve Bank to grant medium-term loans to state co-operative banks for agricultural purposes for periods of not less than 15 months and not exceeding five years, on government guarantee, up to a limit of Rs 5 crores.

To bring about closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Reserve Bank on the other, in this expanded programme, the Reserve Bank constituted a Standing Advisory Committee on Agricultural Credit in July 1951. A scheme of voluntary inspection of co-operative banks was started in 1952.

These developments since the publication of the Rural Credit Survey Report in 1954 are but a logical continuation of the policies initiated by the Reserve Bank during 1951–4 to which we have made a brief reference. They are also a necessary continuation because the central bank of a country such as India, where agriculture forms the mainstay of the economy but facilities for rural credit on an institutional basis are inadequate, has necessarily to play a dominant part in the creation of a sound structure of rural credit.

The Reserve Bank of India Act was amended in 1955 to enable the Bank to play a dynamic role in rural credit on the lines recommended by the Rural Credit Survey Committee. The amendments included provision for the setting up of a National Agricultural Credit (Long-term Operations) Fund and of a National Agricultural Credit (Stabilization) Fund by means of annual contributions from the profits of the Bank.

The National Agricultural Credit (Long-term Operations) Fund is to be utilized for (*a*) provision of loans to state governments to enable them to subscribe directly or indirectly to the share capital of a co-operative credit society, such

loans to be repayable within 20 years; (*b*) making medium-term loans for agricultural and allied purposes for periods not less than 15 months and not exceeding five years on government guarantee; (*c*) provision of long-term loans up to 20 years to central land mortgage banks on government guarantee and (*d*) the purchase of debentures of central land mortgage banks guaranteed by the government. The Long-term Operations Fund was set up by the Reserve Bank in February 1956, with an initial contribution of Rs 10 crores. The total amount put into this Fund at the end of June 1964 was Rs 86 crores. The loans outstanding from this Fund came to Rs 45·39 crores—Rs 28·30 crores as loans to state governments to enable them to take shares in co-operative credit institutions, Rs 13·00 crores of medium-term loans to state co-operative banks, and Rs 4·09 crores as investments in the debentures of central land mortgage banks. The Reserve Bank of India Act provides that the central government may authorize the Bank to increase or reduce the amount of its annual contributions in any year. The loans from this Fund for enabling state governments to take shares in co-operative credit institutions have so far been for a period of 12 years, carrying no interest for the first two years, 2 per cent for the next three years, 2½ percent for the next four years and 3 per cent for the last three years.

The Reserve Bank set up the National Agricultural Credit (Stabilization) Fund in June 1956 with an initial contribution of Rs 1 crore. The total amount to the credit of this Fund at the end of June 1964 was Rs 9 crores. The central government can authorize the Bank to increase or reduce the amount of its annual contributions in any year. The Stabilization Fund can be utilized only for the purpose of making medium-term loans for periods not less than 15 months and not exceeding five years to state co-operative banks, on government guarantee, to enable them to pay their short-term dues to the Reserve Bank if, in the opinion of the Bank, the state co-operative banks are unable to repay such dues in time owing to drought, famine, or other natural calamities. This Fund has not been drawn upon so far.

The normal short-term operations of the Reserve Bank

have increased substantially in recent years. This has been due to some extent to state partnership in share capital of co-operative credit institutions which has enabled them to borrow more because loans from the Reserve Bank are based on certain multiples of the owned funds, broadly paid-up share capital and statutory reserve fund. Another reason for the increase has been the further liberalization of procedure followed in fixing credit limits to co-operative banks in April 1956 in terms of which central banks in class A may be sanctioned loans normally up to three times the owned funds and four times in exceptional cases. Central banks in class B may be sanctioned credit limits normally up to twice and, in exceptional cases, thrice the owned funds. On the special recommendation of the Registrar, even C class central banks could be sanctioned credit limits up to twice the owned funds. These terms were again liberalized following the recommendations made by the Committee on Co-operative Credit (1960). The Reserve Bank agreed to give an additional limit up to twice the owned funds in the case of an A class central bank and up to an amount equal to the owned funds in the case of a B class central bank, subject to the banks concerned being able to show outstanding non-overdue short-term agricultural loans equal to twice the amount borrowed in excess of the normal credit limit. Further, the definition of the term 'owned funds' was enlarged for the purpose of fixing the credit limits to include not only the paid-up share capital and statutory reserve fund, but also other funds of a permanent nature, e.g. the dividend equalization fund.

Owing to the liberalization of procedure and the various amendments to the Reserve Bank of India Act referred to above, there has been a substantial increase in the flow of co-operative agricultural credit from the Reserve Bank. Thus the total withdrawals made by all the state co-operative banks on the short-term credit limits sanctioned to them by the Reserve Bank for seasonal agricultural operations and marketing of crops rose from Rs 1·50 lakhs in 1946–7 to Rs 34·81 crores in 1956–7 and to Rs 298·21 crores in 1963–4. These loans carry a concessional rate of interest which is now

4 per cent (or 2 per cent below the Bank Rate, which is at the time of writing 6 per cent).

In co-operatively developed states, short-term loans are granted by the Reserve Bank to the state co-operative banks against two or more good signatures, one of which should be that of a state co-operative bank and the other of the central co-operative bank. However, in states where the movement is weak, the Reserve Bank grants loans to state co-operative banks against the guarantee of the state governments.

Medium-term finance for agricultural purposes is provided by the Reserve Bank at the concessional rate of 1½ per cent below the Bank Rate, i.e. at 4½ per cent on the basis of the present Bank Rate of 6 per cent. As we have seen, the Reserve Bank was enabled for the first time to provide this type of credit in 1953. According to one of the amendments introduced in the Reserve Bank of India Act in 1955, the statutory restriction with regard to the maximum amount, namely Rs 5 crores, which could be provided by the Reserve Bank as medium-term finance to state co-operative banks and the maximum that could be provided to a particular state co-operative bank were removed. Such loans can now be given from the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund, on the guarantee of the state government. The purposes for which medium-term loans can be given by the Reserve Bank include reclamation of land, preparation of land for orchards and plantations, construction, development and maintenance of irrigation sources, and purchase of livestock, implements, machinery and transport equipment necessary for agricultural operations. Further, according to an amendment of the Reserve Bank of India Act carried out in 1956, the Bank was authorized to issue medium-term loans for other purposes connected with agricultural activities. One of the purposes recognized for making such advances relates to the financing of medium and small agriculturists for enabling them to purchase shares of co-operative sugar factories. Such loans will be made at the Bank Rate. In December 1961, the purchase of milch cattle by agriculturists who are members

of primary credit societies was accepted as one of the purposes for which medium-term loans could be given. The total withdrawals made by state co-operative banks of medium-term loans from the Reserve Bank increased from Rs 0·27 crore in 1954–5 to Rs 1·06 crore in 1956–7 and to Rs 7·45 crores in 1963–4. Since 1963–4, each state co-operative bank has to fulfil the condition that its total borrowings on behalf of a central bank from the Reserve Bank should not, at any time, exceed 80 per cent of the central bank's outstandings against societies for medium-term agricultural purposes over and above a 'basic level' of the state co-operative bank's lendings from its own resources, fixed by the Reserve Bank.

In the sphere of long-term credit, the Reserve Bank is now in a position to provide long-term loans to central land mortgage banks and also to take up their debentures by drawing upon its Long-term Operations Fund. The latter, however, is apart from the Bank's usual policy of purchasing debentures of central land mortgage banks as part of its normal investment policies. Such purchases were initiated in 1948 and were limited to 10 per cent of any particular issue or the shortfall in public subscriptions, whichever was less. Since 1950, the percentage has been raised to 20. The contributions to the debentures of central land mortgage banks made by the Reserve Bank in this manner totalled Rs 4·05 crores in 1963–4 as compared with Rs 0·13 crore in 1951–2 and Rs 0·15 crore in 1957–8.

We have already referred to the other types of assistance to land mortgage banks, particularly with regard to the scheme of rural debentures, in connexion with which the Reserve Bank can draw on its Long-term Operations Fund. The Reserve Bank treats debentures of central land mortgage banks on a par with government securities for purposes of advances under section 17(4)(*a*) of the Reserve Bank of India Act. The Bank also gives expert advice to central land mortgage banks on the floatation of debentures.

In the sphere of non-agricultural finance, under section 17(2)(*a*), the Bank can give loans to state co-operative banks for financing apex handloom weavers' societies in connexion with purchase and sale of yarn. Further, under

section 17(2)(*bb*), introduced in 1953, the Bank can lend to state co-operative banks for periods up to 12 months for financing the production or marketing activities of cottage and small-scale industries approved by the Bank, if a government guarantee is furnished by the state co-operative bank. So far, only the handloom industry has been approved as one eligible for assistance under this section. The total amount drawn by state co-operative banks in respect of accommodation under section 17(2)(*a*), at the Bank Rate, was Rs 2·91 crores in 1963–4 as compared with Rs 0·37 crore in 1956–7. The amount of loans drawn by the state co-operative banks for financing the production or marketing activities of cottage and small-scale industries under section 17(2)(*bb*) totalled Rs 5·61 crores in 1963–4. This accommodation is provided at a concessional rate of interest of 1½ per cent below the Bank Rate or at 4½ per cent, based on the current Bank Rate of 6 per cent. Under this scheme, co-operative banks can charge only a rate of interest of 3 per cent per annum to the primary weavers' societies. The Government of India, through the All-India Handloom Board, gives a subsidy to the extent of the difference between this rate and the economic lending rate of the co-operative banks with a view to providing the necessary margin to the institutions.

A reference may be made next to the remittance facilities provided by the Reserve Bank to co-operative banks. These have been considerably liberalized since the recommendations of the Rural Banking Enquiry Committee were accepted by the Bank. Such facilities relate to the transfer of funds free of charge between the accounts of state co-operative banks maintained with the Reserve Bank; the remittance of funds free of charge between state co-operative banks and central co-operative banks; and remittance of funds at concessional rates between all types of co-operatives, subject to certain limits and conditions.

In keeping with the Reserve Bank's growing sphere of activities in rural credit and co-operation, the scheme of voluntary inspection of co-operative banks initiated in 1952, has been enlarged in scope, particularly since the expansion of the Agricultural Credit Department and the

decentralization of its activities since April 1957. The Department has its head office in Bombay and a regional office for each of the states. The inspections conducted by the Reserve Bank are supplementary to those by the co-operative departments of the state governments and are mainly confined to state and central co-operative banks, each of which is inspected once a year.

Certain far-reaching decisions were taken by the authorities in 1964 for the control of the banking business of co-operative banks by the Reserve Bank, on a statutory basis, by extending certain provisions of the Reserve Bank of India Act and of the Banking Companies Act to co-operative banks. Earlier, this scheme was linked to the question of insurance of deposits of co-operative banks by the Deposit Insurance Corporation, but it is not clear at present whether this scheme of insurance will form part of the total scheme. A bill was introduced in Parliament on 17 December 1964 on the subject of extension of certain provisions of the Reserve Bank of India Act and the Banking Companies Act to co-operative banks. In effect, this means that the Reserve Bank will have certain legal powers to regulate the banking business of co-operatives. The regulatory provisions do not, however, apply to primary agricultural credit societies and land mortgage banks. Thus, state and central co-operative banks and urban co-operative banks are to be brought within the purview of legal control over their banking operations. It is reported that the bill was passed by Parliament in September 1965.

This huge rural credit programme needs, among other things, the full co-operation of the state governments, the co-operative institutions and co-operators. We have already noted the constitution by the Reserve Bank in 1951 of a Standing Advisory Committee on Agricultural Credit. The Committee was reconstituted in 1956 as a smaller body on the recommendations of the Rural Credit Survey Committee. The Chairman and the Vice-Chairman of the Committee continue to be the Governor and the Deputy Governor (dealing with rural credit) of the Reserve Bank. The Committee includes prominent co-operators and officers

of the Ministry of Food and Agriculture, the Ministry of Community Development and Co-operation and the Planning Commission. The Committee can co-opt other members either for a period of time or for a particular meeting. The functions of the Committee are to offer detailed advice to the Reserve Bank on matters pertaining to its Agricultural Credit Department and allied subjects. The Committee has served as a very useful body for sounding co-operative opinion on various matters of policy and procedure and in coming to agreed recommendations on them. At the twenty-ninth meeting of the Standing Advisory Committee, held on 27 April 1965, it was decided that the Committee would be re-designated as the Standing Advisory Committee on Rural and Co-operative Credit and that, as and when occasion arose and the need was felt, a separate sub-committee might be set up for dealing with the problems of industrial co-operatives.

The Reserve Bank has naturally been closely associated with the co-operative development plans of the various states, both in their detailed formulation and in their fulfilment, in conjunction with the Government of India. Apart from the detailed planning done in the headquarters in Bombay, the Agricultural Credit Department maintains frequent contacts with the co-operative movement in the different states through its regional offices and by means of tours of its Chief Officer and other officers.

The Role of the Government of India

In the plans for co-operative development, especially in the spheres of co-operative marketing, processing and warehousing, the Government of India has a role which is complementary to that of the Reserve Bank with regard to rural credit. In the fourth edition of this book, it was mentioned that a special organization was considered necessary in this context and the Government of India set up the National Co-operative Development and Warehousing Board on 1 September 1956 in terms of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956. The functions of the Board were to plan and

promote programmes for the production, processing, marketing, storage, warehousing, export and import of agricultural produce through a co-operative society or a warehousing corporation. The Board had two funds, namely the National Co-operative Development Fund for advancing loans and granting subsidies to state governments to enable them to subscribe to the share capital of co-operative societies or for otherwise financing co-operative societies, and a National Warehousing Fund for subscribing to the share capital of the Central Warehousing Corporation, advancing loans to state governments to enable them to subscribe to the share capital of state warehousing corporations, and advancing loans and granting subsidies to a warehousing corporation or to state governments for promoting the warehousing and storage of agricultural produce. Both the Funds were built up out of grants from the Government of India. It was also mentioned that the National Co-operative Development and Warehousing Board was an important shareholder of the Central Warehousing Corporation set up under the Agricultural Produce (Development and Warehousing) Corporations Act, 1956.

These arrangements have now been changed consequent upon the coming into force of the National Co-operative Development Corporation Act, 1962 and the Warehousing Corporations Act, 1962, in terms of which the functions of the National Co-operative Development and Warehousing Board were divided and distributed among two independent institutions, namely the National Co-operative Development Corporation, which was entrusted with all the functions of the erstwhile National Co-operative Development and Warehousing Board other than those relating to warehousing, and the Central Warehousing Corporation which was to deal with warehousing. It has been reported that this change was made for administrative convenience. The Minister of Community Development and Co-operation, Government of India, is the chairman of the Corporation which includes non-official co-operators and others and officials.

Assistance for co-operative development programmes

from the Government of India to the state governments is routed through the National Co-operative Development Corporation. In other words, the Corporation finances these schemes with the funds placed at its disposal by the Government of India. The Corporation maintains the National Co-operative Development Fund, built up out of funds from the central government. There was an opening balance of Rs 7·15 crores in this Fund at the beginning of 1963–4. The following is the pattern of the financial assistance available from the National Co-operative Development Corporation for schemes of co-operative development.[9]

(1) For additional managerial and supervisory staff appointed by them under the co-operative development plans, primary credit societies, which are selected under the programme of revitalization, state co-operative banks, central co-operative banks, and central and primary land mortgage banks get subsidies half of the cost of which is met by the central government, and the remaining half by the state governments to the extent of the full cost in the first year, two-thirds in the second year and one-third in the third year. For selected primary credit societies the subsidy is now Rs 900 per society spread over a period of three to five years, the sharing being on a 50:50 basis between the central government and the state governments. During 1963–4, an amount of Rs 0·99 crore was released by the Corporation to the state governments for additional managerial staff, raising the total assistance so far released to Rs 5·62 crores.

(2) Under the recommendations of the Committee on Co-operative Credit (1960), primary credit societies and central co-operative banks are given outright grants by the government as a contribution to their special bad debt reserve funds to serve as a cushion to cover part of the risks involved in lending to members who form the weaker sections. Such grants are given to the extent of 3 per cent of the additional loans made by each society during the

previous year over those advanced by it in the preceding year and to central banks at 1 per cent of the additional finance provided by them to agricultural credit societies. In the districts covered by the Package Scheme, such contributions are made at 4 per cent for primary credit societies and 2 per cent for central banks. These grants are shared on a 50:50 basis by the central government and the state governments. The Corporation released sums of Rs 0·61 crore and 0·15 crore to state governments to enable them to give outright grants to the special bad debt reserves of primary credit societies and central banks, the total amount released since the inception of the scheme in 1961–2 being Rs 0·95 crore for primary credit societies and Rs 0·38 crore for central banks.

(3) In 1963–4, the Corporation decided to invest its surplus funds up to a limit of 25 per cent in the debentures floated by central land mortgage banks. Such purchases were limited to the extent of the shortfall, if any, in subscriptions from other sources, or 5 per cent of the issue, whichever was less. The assistance thus provided came to Rs 0·44 crore in 1963–4. The present scheme is to be reviewed in 1965–6.

(4) The Corporation provides to the state governments 75 per cent of the amounts contributed by them to the share capital of co-operative marketing societies at various levels as loans repayable in 15 equated instalments. The proportion of members' contributions to the state governments' contribution varies from 1:1 to 1:4 in the different states according to the level of their co-operative development.

Co-operative marketing societies also get subsidies towards the cost of managerial staff for a period of three years to the extent of 100 per cent during the first year, 66⅔ per cent in the second year, and 33⅓ per cent during the third year, the cost being shared equally by the central government and the state

governments. They also get loans and subsidies for construction of godowns to the extent of 75 per cent and 25 per cent from the state governments. The central government provides to the state governments 62½ per cent of the cost of each godown as a loan and 12½ per cent as a subsidy. The loans are repayable in 15 years. Co-operative marketing societies also get subsidies for the cost of hiring godowns, the subsidy being shared on a 50:50 basis by the central government and the state governments. They also get a subsidy towards the cost of grading equipment which is shared by the central government and the state governments on a 50:50 basis. Selected marketing societies get loans for purchasing trucks at the rate of Rs 50,000 per vehicle to be shared by the central government and the state governments in the ratio of 3:1. Selected marketing societies also get a subsidy for employing additional managerial staff for undertaking the distribution of consumers' articles in rural areas, for a period of three years, on a tapering basis. The full cost of the subsidy is met by the central government.

For the various types of programmes indicated above, the total financial aid was to the extent of Rs 1·56 crores for 103 marketing societies in 1963-4. The total assistance provided up to 1963–4 came to Rs 14·26 crores for 2,171 marketing societies.

(5) The state governments, helped by the central government, give financial aid to co-operative sugar factories and other processing societies in the form of contribution to their share capital. Subsidy for engaging managerial personnel for a period of three to five years on a tapering scale, and loans and subsidies for construction of godowns are given only to processing societies other than sugar factories. The quantum of assistance to each unit depends on its size and the type of processing work undertaken. The detailed pattern of assistance is as follows: (*a*) for share capital contributions, 100 per cent of

the amount contributed by the state governments for co-operative sugar factories and 75 per cent of the amount contributed by the state governments for other types of processing societies is provided by the central government as a loan; (*b*) for managerial subsidy, the central government provides a subsidy of 50 per cent of the aid provided by the state governments; (*c*) for construction of godowns, the central government meets 62½ per cent of the cost as a loan and 12½ per cent of the cost as a subsidy, the balance under loans and subsidies being provided by the state governments.

The total aid given by the Corporation for the programmes mentioned above came to Rs 0·76 crore in 1963–4. The progressive total of assistance in that year was Rs 8·46 crores.

(6) Selected primary credit societies and marketing societies get loans and subsidies from the state governments at rates which vary from Rs 10,000 to Rs 12,500 for each village level godown and Rs 25,000 for each *mandi* level godown. Godowns located at district places and state capitals qualify for a larger amount of aid. The societies get 75 per cent of the cost as loan and 25 per cent as subsidy from the state governments. They also get a loan of Rs 4 lakhs for each cold storage plant. The central government provides to the state governments 62½ per cent of the cost as a loan repayable in 15 years and 12½ per cent of the cost as a subsidy for construction of godowns and 75 per cent of the cost of each cold storage plant as a loan. The total assistance from the Corporation under this programme representing both loans and subsidies came to Rs 1·33 crores in 1963–4. The total assistance given up to 1963–4 came to Rs 10·27 crores—Rs 8·37 crores as loans and Rs 1·90 crores as subsidies for construction of 8,697 rural godowns, 2,114 godowns of marketing societies and 15 cold storage plants.

The programme for construction of godowns has lagged behind in many states and needs attention. There is also need for making full use of the godowns. The Corporation has suggested that state governments should undertake studies to find out the position.

(7) Under the scheme of consumers' co-operatives sponsored by the Government of India in November 1962 following the emergency, it was proposed to set up 200 wholesale stores and 4,000 primary units in cities and towns with a population of over 50,000. A provision of Rs 10 crores was made for financial assistance to be provided by the Government of India on the following basis: (*a*) Contribution to share capital to the extent of Rs 1 lakh to each wholesale store and Rs 2,500 to each primary store or branch, on a matching basis; (*b*) clean credit accommodation of Rs 2 lakhs to each wholesale store; (*c*) loans and grants for construction of godowns and purchase of trucks and equipment (75 per cent as loan and 25 per cent as subsidy) for a total amount of Rs 1 lakh for each wholesale store; (*d*) managerial subsidy of Rs 10,000 for a wholesale store and Rs 2,000 for a primary store or branch, spread over a period of three to five years; and (*e*) meeting the cost of a joint Registrar and his personal staff in each state.

The amount of financial assistance released under the scheme up to the end of 1963–4 came to Rs 6·80 crores in respect of 212 wholesale stores and 3,000 primary units and the cost of joint Registrars.

(8) During the Second Plan (1956–61), up to 1958–9, the central government used to give, as a grant, 25 per cent of the cost of additional staff employed by state co-operative departments. This was later raised to 50 per cent. The amount so far utilized by the state governments under this programme from 1961–2 to 1963–4 came to about Rs 0·86 crore.

Warehousing Corporations

The other important institution set up by the Government of India as an agency for executing the integrated scheme of rural credit relating to warehousing and storage was the Central Warehousing Corporation which was intended for providing organized warehousing and storage facilities to the cultivators, traders, and others and for the creation of licensed warehouse receipts which could be used as security for credit to be extended particularly by commercial banks. The Central Warehousing Corporation was set up in March 1957 under one of the provisions of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956. We have noted earlier that certain changes in the structure of the Central Warehousing Corporation were made in 1962. As at present constituted, its authorized capital continues to be Rs 20 crores divided into 200,000 shares of the face value of Rs 1,000 each. The face value of the total shares issued so far comes to Rs 10 crores of which Rs 4 crores have been subscribed by the Government of India (Ministry of Food and Agriculture, Department of Food), Rs 1 crore by the State Bank, Rs 0·19 crore by other scheduled banks, Rs 0·25 crore by co-operative societies and Rs 0·51 crore by insurance companies and other financial institutions. An annual dividend at the rate of 3½ per cent on the shares of the Corporation has been guaranteed by the Government of India.

The functions of the Central Warehousing Corporation are to acquire and build warehouses at suitable places; run warehouses for the storage of agricultural produce, seeds, manures, fertilizers, agricultural implements etc; arrange for the transport of agricultural produce to and from warehouses; subscribe to the share capital of state warehousing corporations and act as agent of the government for the purchase, sale, storage and distribution of agricultural produce, seeds, manures etc. At the end of 1963–4, the Central Warehousing Corporation had 83 warehouses in various centres with a storage capacity of 17,78,570 standard bags. The stocks held came to 9,36,057 standard bags, the percentage of occupancy being 53.

The state warehousing corporations are complementary agencies. The shareholders of a state warehousing corporation are the state governments concerned and the Central Warehousing Corporation in the ratio of 50:50. There were 14 state warehousing corporations in 1963–4 with 429 warehouses and 93 ancillary warehouses and a cold storage plant with a storage capacity of about 4·70 lakh metric tonnes. Their total paid-up share capital came to Rs 4·72 crores.

These developments in storage have been generally on the lines indicated by the Rural Credit Survey Committee. The programme fulfils a long-felt need. It has been estimated that about three million tons of foodgrains could be saved every year by improved methods of storage. At the same time, the programme cannot yield immediate results in the shape of profits because it will take some time for the warehouses to attract enough customers to pay their way. This was fully recognized by the Rural Credit Survey Committee which emphasized that the storage work of the central and state governments should be entrusted to them since this would give them assured business.

The programme should be a co-ordinated one, with the spheres of the Central Warehousing Corporation, the state warehousing corporations, the government and the co-operative societies well-defined. The Rural Credit Survey Report envisaged that the Central Warehousing Corporation would cover all-India centres. State and other suitable centres would be the sphere of state warehousing corporations, co-operative warehouses and godowns being established in the smaller towns and suitable taluka centres and at other important centres in the semi-urban and rural areas. Before selecting centres for the opening of warehouses of the central and state warehousing corporations, care should be taken to avoid duplication and competition and there should not be any clash with the co-operative part of the programme.

There are some limitations on the role of co-operative banks as financiers in the scheme. This is because of the fact that it is not the function of co-operative banks to finance individuals who approach them for accommodation on the

security of warehouse receipts, even granting that they are members of these banks. Such persons, however, can go to commercial banks or co-operative urban banks of which they are members.

The Role of the State Bank of India

The Rural Credit Survey Report recommended, as part of its integrated scheme of rural credit, the conversion of the Imperial Bank of India and certain state-associated banks into a State Bank of India. As a major step in this direction, the State Bank of India was created on 1 July 1955 by transferring to it the offices in India of the Imperial Bank of India under the State Bank of India Act, 1955. The State Bank, while continuing to undertake commercial banking functions, was expected to assist rural banking development vigorously. It had, under its statute, to establish not less than 400 additional branches within five years of its formation or such extended period as the central government might specify, especially at district headquarters and other regional centres. It was also expected to provide vastly extended remittance facilities to co-operative and other banks and, in particular, to be responsive to the needs of co-operative institutions connected with credit and especially with marketing and processing. When the State Bank of India was set up in 1955, its issued share capital of Rs 5·625 crores was allotted to the Reserve Bank in lieu of the shares of the Imperial Bank transferred to it, the erstwhile shareholders receiving suitable compensation paid in securities of the central government and, at the option of the shareholders, in the form of shares of the State Bank up to a maximum of 200 shares. The law provides that the Reserve Bank shall always hold a minimum of 55 per cent of the issued capital of the State Bank.

In September 1956, the State Bank formulated a scheme to grant credit facilities to co-operative banks against government securities and re-pledge of goods at concessional rates. The various types of assistance given by the State Bank to co-operatives are summarized below:

(1) Liberalized remittance facilities are provided to state

co-operative banks. Free transfer facilities up to certain limits are now permitted thrice a week in respect of remittances of state co-operative banks and their affiliated banks from any place where there is an office of the State Bank to the principal account they maintain with the Reserve Bank and to their head office accounts with the offices of the State Bank. Apex banks and central financing agencies are given free remittance facilities once a week for transferring funds to their up-country branches.

(2) The State Bank provides loan and overdraft facilities against government securities, at a concessional rate of one half per cent below the State Bank of India Advance Rate, subject to a minimum of 3 per cent per annum to co-operative banks. They can also obtain advances on the re-pledge of goods, at a concessional rate. The State Bank provides, in special cases, advances to state co-operative banks against government guarantee to enable them to finance their affiliated societies. The credit limits sanctioned by the State Bank to co-operative banks, other than the central land mortgage banks, totalled Rs 26·5 crores on 30 September 1964 as compared with Rs 30 crores at the end of the corresponding period in 1963. The amount outstanding stood at Rs 3·4 crores as against Rs 4 crores in the previous year. Out of these, limits totalling Rs 11·4 crores granted to state co-operative banks were for providing financial assistance to marketing and processing societies for marketing and distribution and for providing working capital to consumers' stores. Outstandings under these limits came to Rs 1·9 crores.

(3) The State Bank subscribes to the debentures of co-operative central land mortgage banks generally up to 10 per cent of the issue, grants advances on the security of such debentures and, in suitable cases, grants limited temporary financial accommodation against government guarantee to help central land mortgage banks to undertake their normal loaning business pending their raising funds through floatation of debentures. Credit limits sanctioned to co-operative central land mortgage banks and outstandings against such limits increased from Rs 6·09 crores and Rs 2·23 crores on 30 September 1963 to Rs 8·43 crores and

Rs 3·65 crores on 30 September 1964. The holdings of debentures of central land mortgage banks with the State Bank increased from Rs 3·66 crores to Rs 5·94 crores during the same period.

(4) The State Bank provides direct finance to co-operative marketing and processing societies in areas where there is little or no near prospect of the central financing agencies being able to provide such finance. In suitable instances, after consulting the state co-operative banks and others concerned, the Registrar of Co-operative Societies may give general clearance to the State Bank in respect of a whole region or a whole state. Marketing societies are given advances against pledge of produce, subject to suitable margins. Clean accommodation is also given for small amounts against the guarantee of directors of the borrowing institutions, or on the collateral security of immovable property. Processing societies also are given similar assistance. Co-operative sugar factories, which form an important category of processing societies, are assisted by granting interim accommodation by way of clean loans pending disbursement of loans granted to the factories by the Industrial Finance Corporation on government guarantee; giving advances against pledge of stocks; granting loans, up to limited amounts, for working capital; and providing clean credit facilities for limited amounts in certain cases. Arrangements are also available for the State Bank to give letters of credit and deferred payment guarantees for the import of machinery and capital goods on government guarantee and on the security of the general assets of the factory. The credit limits sanctioned and outstanding in regard to co-operative sugar factories increased from Rs 7·58 crores and Rs 1·99 crores on 30 September 1963 to Rs 8·67 crores and Rs 2·14 crores on 30 September 1964. The limits sanctioned and outstandings in respect of direct advances to other processing and marketing societies stood at Rs 1·15 crores and Rs 0·25 crore on 30 September 1963 as against Rs 2·01 crores and Rs 0·17 crore on 30 September 1964.

(5) Limits aggregating Rs 0·18 crore were sanctioned to 12 co-operative consumers' stores. Further, limits totalling

Rs 11·5 crores were sanctioned to the state co-operative banks of Madras, Maharashtra and Kerala to enable them to finance procurement of foodgrains under the respective schemes of these state governments in 1963–4. The role of the State Bank in the financing of cottage and small-scale industries will be mentioned in the next section.

(6) To borrow from the State Bank on the security of warehouse receipts, customers should ordinarily have full title to the goods, either as the original depositors or the first transferees of the relative warehouse receipts. The credit limits sanctioned and outstanding in respect of advances against warehouse receipts issued by the central and state warehousing corporations stood at Rs 4·49 crores and Rs 0·95 crore on 30 September 1964 as compared with Rs 4·08 crores and Rs 1·11 crores on 30 September 1963.

The programme for branch extension of the State Bank to enlarge facilities for rural banking is going on apace. Between 1955 and 1964, the number of offices of the State Bank increased by 651 to 1,147. There has been considerable expansion in the rural and semi-urban areas.

An interesting recent development has been the decision announced in February 1965 by the then chairman of the State Bank, Shri B. Venkatappiah, to establish initially between 50 and 70 pilot centres in rural areas to assist in the provision of credit for production, agricultural and industrial. It was indicated by Shri Venkatappiah that the scheme will be co-ordinated with the programme of reorganization of co-operative credit and the operations of co-operative banks and societies in the areas to be covered.

Agricultural Refinance Corporation

With a view to having an agency for providing larger funds for agricultural development in compact areas, the Agricultural Refinance Corporation was set up on 1 July 1963, under the sponsorship of the Reserve Bank. The object of the Corporation is to help in augmenting the resources available for provision of medium-term and long-term finance for agriculture. The Corporation is primarily a refinancing agency giving long-term loans for major agricultural

schemes which cannot be financed by the existing credit agencies either on account of the volume of funds involved or the terms and conditions of repayment, because the projects are such as cannot be brought within the normal rules of business under which co-operative land mortgage banks are functioning. Thus, the Corporation is not intended to replace the existing credit agencies or to function in a passive way. Refinancing facilities are available from the Corporation for (*a*) reclamation and preparation of land so that facilities for irrigation, in particular, are fully utilized; (*b*) development of special crops such as areca-nut, coconut, cashew-nut, coffee, tea etc.; (*c*) development of mechanized farming, use of electricity for tubewells, pump-sets etc., and (*d*) development of animal husbandry, dairy farming, pisciculture (including co-operative fisheries) and poultry-farming.[10]

The membership of the Corporation consists of the Reserve Bank, state co-operative banks, central land mortgage banks, scheduled banks, the Life Insurance Corporation, insurance and investment companies and such other classes of financial institutions as may be notified by the central government. The authorized share capital of the Corporation is Rs 25 crores divided into 25,000 fully paid-up shares of Rs 10,000 each. Out of this, 5,000 shares valued at Rs 5 crores were issued in the first instance. The Reserve Bank took up shares for Rs 2·50 crores initially. The Government of India sanctioned an interest-free loan of Rs 5 crores to the Corporation in July 1963, the repayment commencing after 15 years. The Corporation charges 5½ per cent interest on all types of financial assistance provided by it. A rate of dividend of 4¼ per cent on the shares of the Corporation is guaranteed by the central government. By the end of June 1964, the Corporation had approved four schemes involving an outlay of Rs 6·38 crores out of which the Corporation's commitment was for Rs 5·74 crores and that of the state government, Rs 0·64 crore. The success of the Agricultural Refinance Corporation will depend upon the states being able to send up well-conceived schemes. This in turn depends upon the co-ordinated working of the Agricultural and

Co-operative Departments in the states, the level of efficiency of the co-operative credit institutions and the arrangements for supervision, especially at the local levels.

Administration and Training

The Rural Credit Survey Report emphasized that the success of the integrated scheme would depend to a large extent on the existence of a well-trained staff sympathetically inclined to the needs of the rural areas. A co-ordinated scheme for training of personnel was initiated by the Government of India and the Reserve Bank under the auspices of a Central Committee for Co-operative Training which was set up in 1953 under the chairmanship of Shri V. L. Mehta. The Agricultural Credit Department of the Reserve Bank was the secretariat of the Central Committee. Under this scheme, there was an all-India co-operative training college at Poona, having a training course of six months with a capacity of training 40 senior officers of Co-operative Departments and institutions in each session, five regional training centres at Indore, Madras, Meerut, Poona, and Ranchi, with an 11 months' course (except in Poona where the course was for 12 months) divided into 6½ months of theoretical training and 4½ months of practical training with a capacity of training 220 officers a year; and eight block-level training centres with a total capacity of training about 800 government officers a year. Junior officers of Co-operative Departments and institutions were trained in special schools in the states. The training of non-official co-operative workers was—and continues to be—the responsibility of the All-India (now National) Co-operative Union and the state co-operative unions. For these training courses, stipends and other facilities such as rent-free lodging were available from the government.

A far-reaching recent development has been the transfer of the administration of the training schemes from the Central Committee for Co-operative Training to the National Co-operative Union of India, with effect from 1 July 1962. The National Co-operative Union has set up a Committee on Co-operative Training to administer the

schemes of training. According to the present arrangements, there is a National Co-operative College and Research Institute at Poona (formed as a result of the reorganization of the erstwhile All-India Training College at Poona) for training of senior personnel, 13 intermediate centres (formed by reorganizing the erstwhile intermediate training centres numbering five and eight block-level training centres) for training the intermediate category of personnel, 64 junior training centres for junior-level personnel, and 564 peripatetic units for the training and education of field-level workers. There is a Co-operative Instructors' Training Centre in New Delhi for giving training to those in charge of member-education programmes.

The National Co-operative College and Research Institute at Poona gives training to senior level staff of Co-operative Departments and institutions. It conducts two courses during a year, of six months duration each. The 13 intermediate training centres provide training to intermediate personnel of Co-operative Departments and institutions. Nine of these centres are run directly by the National Co-operative Union of India through the Committee for Co-operative Training. The remaining four centres at Poona, Madras, Anand, and Gopalpur-on-Sea are run by the respective state co-operative unions. The intermediate centres conduct a general basic course of a duration of 36 weeks and a number of special courses (e.g. marketing, land mortgage banking and industrial co-operation). The 64 junior training centres in the states provide training to junior staff of Co-operative Departments and societies. They usually run two courses of six months' duration each. The policy is to transfer the control of these junior training centres from the state governments to the respective state co-operative unions. The centres in some states, e.g. in Mysore, Madras, Gujarat, Kerala, and Maharashtra, are now being managed by the state co-operative unions.

The programme for the training of members and office-bearers of co-operative societies is being carried out by the state and district co-operative unions under the general supervision of the National Co-operative Union. In 1964–5

a revised member-education programme was put into effect. Under this, courses lasting from four to five days are held in special camps for office-bearers and managing committee members of primary societies. Courses lasting four weeks each for training managers and part-time secretaries of primary co-operative societies are also conducted by the member-education instructors at the junior training centres.

There is a scheme to start a national institution for training, study, and research in co-operation.

Some figures relating to the progress made in the training programme up to 31 December 1964 are given below:

Senior Officers		Intermediate Officers		Junior Officers*		Non-officials**	
No. of Training Centres	No. Trained	No. of Training Centres	No. Trained	No. of Training Centres	No. Trained	No. of Training Units	No. Trained
1	798	13	7,136	64	40,176	564	2,928,946

*Up to 30 September 1964
**Up to 30 November 1964

These developments are to be welcomed, especially in regard to the transfer of the responsibility for co-operative training and education programmes to the National Co-operative Union of India and gradually to the state co-operative unions. However, these attempts, useful as they are, meet only a very tiny part of the immense need for creating a body of informed and enthusiastic co-operative workers and members, especially at the village level. Unless the members of societies have some minimum of education and unless their staff and office-bearers are literate, it will be very difficult to have a strong credit structure at the primary level. There seems to be a need for linking up the training programme for staff of village societies and members of societies and their office-bearers with the general schemes for adult education.

The co-operative development plans have indicated that there should be one supervisor for every 15 large-sized credit societies and one supervisor for every 25 small credit or other

societies. The standards laid down for auditors are for having one auditor for every 20 large-sized credit societies and one auditor for every 45 small credit or other societies. Many states have staff below these minimum standards. Any economy in this regard will be unwise because while credit can be distributed easily, its recovery is difficult. For effective recovery, there should be an adequate staff of supervisors, auditors, etc. The cost of employing the staff has to be viewed in the context of the liability the state governments will have to incur if the co-operative structure gets into difficulties because they are partners in co-operative institutions and have, in several instances, given their guarantees in respect of loans obtained by the co-operative credit structure from the Reserve Bank and to some extent from the State Bank.

An important recent development has been the appointment by the Government of India in April 1963 of a Committee on Co-operative Administration under the chairmanship of Shri V. L. Mehta to review the existing co-operative departmental set-up in the various states and to make recommendations for strengthening co-operative administration in the country, at various levels. The report of this Committee was published in October 1963. The Committee has stressed the need for provision of adequate personnel to attend to administration, audit and inspection of co-operative societies. The Committee has also emphasized the need for central co-operative banks being entrusted with the responsibility for supervision especially of co-operative credit societies affiliated to them.[11]

Other aspects of administration such as the great need for giving adequate training to the Registrars of co-operative societies and for keeping them in their posts for a sufficiently long period have been discussed in detail in an earlier chapter.

COMMUNITY DEVELOPMENT AND ALLIED SUBJECTS

The problem of rural development in India has many facets. The provision of timely and purposive credit and of

complementary facilities for marketing and processing to the agriculturist is but one aspect of this problem. Other aspects relate to matters such as rural sanitation and medical services, rural water supply, rural roads and communications, education, and the eradication of social evils. The community development and national extension service programmes initiated by the Government of India are directed towards these aspects of the problem of rural development in India. The Third-Five Year Plan has indicated the objectives of the programme in the following words:[12]

> When the first set of community projects were taken up nearly nine years ago, community development was described as the method and rural extension as the agency through which the transformation of the social and economic life of villages was to be initiated. During the intervening years, the tasks to be accomplished by the community development movement and the national priorities to be realized through it have come to be more precisely defined. At the same time, the concept of rural extension has broadened into that of Panchayati Raj, that is to say, the development of a set of interconnected democratic and popular institutions at the village, block and district levels in which the representatives of the people in the village panchayats, panchayat samitis and zila parishads and co-operative organizations function with the support and assistance of the various development agencies of government working together as a team. One of the principal tasks in the Third Plan will be to ensure the growth and working of Panchayati Raj institutions so as to enable each area to realize its maximum development potential on the basis of local manpower and other resources, co-operative self-help and community effort, and effective use of the available resources and personnel.

The community development programme now covers the whole of rural India. It is obvious that the community development and national extension service programme and the integrated scheme of rural credit have many points of contact and are complementary to each other. The First State Ministers' Conference on Co-operation (1955) made a note of the fact that the programme of development of co-operative credit is definitely envisaged as an integral part of the all-round development which is being undertaken in the areas covered by community projects and national extension blocks.

Various issues with regard to the role of the co-operative movement in the context of schemes of community

development and Panchayati Raj were referred to at the annual conference on community development and Panchayati Raj held in New Delhi in July 1964. It was recommended that the Panchayati Raj institutions and the co-operatives should come closer to each other and have joint sittings and deliberations so as to meet, in particular, the needs of agricultural production. The conference was of the view that Panchayati Raj institutions should invest their surplus funds in the co-operatives as deposits or otherwise. It was also recommended that the extension agency should actively help village co-operatives to enlist all agriculturists as their members and that primary credit societies and central co-operative banks should be fully associated with the preparation of production plans.

These are good suggestions so far as they go. But there are certain fundamental points to be kept in mind while dealing with panchayats and co-operatives. A co-operative society—whether it deals with credit, marketing, processing or any other activity—is a voluntary business association of persons, drawn together by common economic interests, organized on the basis of co-operative principles. A panchayat is an administrative organization concerned with village administration in certain spheres. Those who want to have a close link-up between the panchayat and the co-operative society should indicate in what manner they want such an association. To proceed on general lines in this sphere is fraught with serious dangers, particularly to the co-operative society because the main functions of a panchayat are of an administrative character such as the collection of taxes or the hearing of disputes and the execution of certain types of local works and these are not among the functions of a co-operative society. The co-operative society renders primarily an economic service to its members, but it works as a co-operative business organization and not as an administrative organization.

The last point is important, particularly, in the sphere of supervision. There used to be complaints in the past that in certain areas covered by the national extension service and community development programmes, the village level

worker (or *gramsevak*), having about ten villages under his jurisdiction, was replacing the co-operative supervisor. Fortunately, it has now been fully recognized that supervision is a specialized job which has to be performed by separate officers, preferably under the co-operative financing banks, and that the village level worker cannot deal with it. The fundamental task of the village level worker relates to agriculture, especially that aspect of it relating to production.

In some states, the co-operative staff in a block (each block covering about 100 villages) are under the direct control of the block development officer. This arrangement has various defects as it cuts off, to some extent, the Registrar's contact with the field staff at the village level and requires the co-operative staff to work under an officer who may often not be trained in co-operation. The energies of the staff are also likely to be diverted to activities other than co-operative work proper. On the other hand, if there is no link between the Co-operative Department and the department dealing with community development, co-ordination between the two may be difficult to achieve. Sir Malcolm Darling, in his report published in 1957, has referred in this context to undivided Punjab where the link was provided by a district committee with the head of the district as the chairman, and with other district representatives of the Co-operative and other departments. Sir Malcolm Darling pointed out that this arrangement left departmental control over the field staff unaffected, and there was no need to draw a disputable line between administrative and technical subjects.[13]

Gramdan (or making a voluntary gift of a village), the movement initiated by Mahatma Gandhi's disciple Acharya Vinoba Bhave, is also a part of community development, in a general sense. The movement aims at persuading all the resident landlords of a village or a hamlet to give their entire land as a gift, to be collectively owned and used. The role of co-operative societies in the movement has come up for consideration. One of the basic problems is a legal one, concerning the legal rights of the owner in regard to the land, especially the right to sell or mortgage it, which will be particularly relevant for long-term loans from land mortgage

banks. A demand has sometimes been put forward that there should be a separate and distinct structure of co-operative societies exclusively for the *gramdan* villages. This demand has perhaps arisen out of the feeling that the problems of *gramdan* villages are so different from others that they need separate treatment and a separate structure for credit, marketing, and other sectors. Some of the problems which arise in connexion with these proposals are the cutting across of the existing structure of co-operation, the concentration of risks and the difficulty of drawing a distinction between *gramdan* villages and other villages, especially those which are close together. While it is not possible to suggest a simple remedy, a promising line appears to be the establishment of co-operative marketing societies, with strong state aid in share capital and management, to collect and sell the members' produce and to supply their agricultural and domestic requisites. The marketing societies, both apex and primaries, can be financed by the usual co-operative credit structure. Loans for production can be given by the government until such time as the co-operative marketing structure develops and makes possible the organization of co-operative credit societies. It may be added that in the Third Five-Year Plan a sum of Rs 8 crores has been allocated to the Ministry of Food and Agriculture of the Government of India for the resettlement of landless labour. Out of this, a sum of Rs 1 crore has been earmarked for assisting schemes of development in *gramdan* and *bhoodan* areas. Co-operative farming societies and credit societies have been set up in these areas.

This raises the general question of the role of the co-operative movement in relation to the weaker sections of the community. The Government of India set up a special working group in June 1961 to consider this question. The *Report of the Special Working Group on Co-operation for Backward Classes* was published by the Government of India in September 1962. This Report has emphasized that it is neither advisable nor feasible to lay down a uniform pattern of co-operative development for the weaker sections. The programme has to be aided by the state with the full support

of the entire administrative machinery as well as of non-official workers.

For the welfare of scheduled castes, scheduled tribes and de-notified tribes, the Ministry of Home Affairs (now the Department of Social Security) formulated special programmes involving an outlay of Rs 114 crores in the Third Plan, including a sum of about Rs 50 crores for schemes of economic uplift. Out of this allocation of Rs 50 crores, Rs 3·3 crores were earmarked for the co-operative sector. It has been reported that owing to the absence of effective co-operative societies on the ground, the impact of the economic schemes has been rather limited. This matter was considered at a conference of state ministers concerned in May 1964 and following the recommendations of this conference, a plan for setting up 200 forest co-operatives and 500 new primary credit societies was accepted by the state governments for being carried out in 1965–6.

Allied to community development is the land reform undertaken in the states with the objective of giving definite rights in the land to the tenants and saving them from exploitation by landlords. From the point of view of co-operative development, land reforms have created certain problems. As the Rural Credit Survey Report has pointed out, 'Between the need to make the cultivator's rights in land inalienable for reasons of social policy and the need to make them alienable so as to facilitate the obtaining of credit, especially long-term credit, some conflict is inherent.'

This was one of the subjects considered by the Technical Committee on Land Mortgage Banks (1957) set up by the Reserve Bank. That Committee recommended that the state governments should give a definite assurance to land mortgage banks that if as a result of land or tenancy reforms these banks suffered a loss in respect of loans already advanced by them, the state governments should make good the loss. In this context, land mortage banks were advised to give loans to members who not only owned the land but also personally cultivated such land. The Committee suggested that all landholders, occupancy tenants and tenants in the process of becoming owners, should have an

unfettered right to mortgage their ownership or occupancy rights to a co-operative society. Further, co-operative land mortgage banks should be exempted from legislative restrictions on the size of holdings and should be given freedom to lease lands at their discretion to anyone, without restriction. The Committee commended the example of the Government of Bombay (now Maharashtra) which had prescribed the basis of valuation of land and agreed to meet the actual loss suffered by land mortgage banks as a result of the decrease in land values owing to the land reform, subject to a maximum of 2 per cent of the loans advanced by them. The Committee while noting that priority for loans advanced by co-operative land mortgage banks over the loans subsequently granted by the government under the Land Improvement Loans Act, 1883, had been given, recommended similar treatment for loans given under the Agriculturists' Loans Act of 1884. These recommendations were accepted by the Reserve Bank's Standing Advisory Committee on Agricultural Credit and, in a circular letter issued in October, 1958, the Reserve Bank conveyed the recommendations of the Technical Committee, as approved by the Reserve Bank's Standing Advisory Committee, as follows:[14]

In connexion with the recommendation that government should make good the loss suffered by land mortgage banks as a result of land or tenancy reform measures, it was noted that it was important to distinguish between direct and indirect losses. On the recommendation that restrictions on the sale of land etc. should not, as far as possible, be made applicable to co-operative institutions, the Committee was of the view that land mortgage banks could claim exemption only from such of those restrictions which were not fundamental to land reforms. Subject to this consideration, land mortgage banks might be given as much freedom as possible to deal in land. It was noted in this context that a ceiling on land-holding formed a fundamental part of land reforms. Others not so fundamental, might be relaxed in favour of land mortgage banks. On the recommendation that a mortgage executed in favour of a land mortgage bank should have priority over subsequent claims of the government in relation to all *taccavi* loans the Committee noted that a major solution of the problem will be the channelling of as much of government loan assistance as possible through the co-operative credit structure.

Undoubtedly, special protection to land mortgage banks from some of the restrictive provisions of land reform is

essential. Otherwise, the tenant who has come into actual possession of land under the beneficial land reform will not be able to find the money for improving his land and making good use of it. He should be able to turn to a land mortgage bank for getting loans for the purpose. But the land mortgage bank can help such a member only if he has a clear title to his land and is able to mortgage his land to it as security for the loans.

CO-OPERATION AND THE INDUSTRIAL SECTOR

The various types of industrial co-operative societies have been dealt with in Chapter III and reference has been made there to the work of bodies such as the All-India Handloom Board and the Khadi and Village Industries Commission.

It has been generally accepted that co-operation is the most suitable form of organization for cottage industries, and to some extent, for small-scale industries. Recent years have seen various useful developments in this sphere, with financial and technical support extended by the state and state-assisted boards specially set up to meet the financial and other needs of cottage and small-scale industries. The most important of these industries is the handloom industry, the responsibility for financing which was handed over from the governmental to institutional agencies from April 1957. Prior to this, the working capital of co-operative societies engaged in the handloom industry was provided from a Cess Fund set up by the Government of India by a levy on mill-made cloth. Institutional financing has meant financing by the co-operative credit structure with funds obtained from the Reserve Bank. Such financing is being done by the existing co-operative credit structure which is being strengthened by state partnership. Normally, it would be unnecessary to set up a different financing structure for handloom and for other cottage and small-scale industries, even though there has been demand in certain quarters for such a separate structure, the main reason put forward being

the lack of interest on the part of co-operative banks in meeting the financial requirements of co-operative societies for handloom weavers etc. Such lack of interest, if it exists, is to be deplored, particularly since the government has come forward to guarantee the co-operative financing banks against losses up to a stipulated percentage.

The change to a system of financing through co-operative banks can be made for industries other than the handlooms, provided certain conditions exist such as a fairly sizeable industry which has been organized on a co-operative basis to a substantial extent, and satisfactory arrangements for marketing. The industry concerned should have gone through a preliminary period of assistance by the state in the shape of finance, technical help and marketing and been rendered viable enough for being taken over by co-operative financing banks as a business proposition. Some of the industries which are still going through this process are coir, leather, sericulture and fisheries.

These and other problems were examined in detail by a Working Group on Industrial Co-operatives set up by the Government of India. In its Report, published in July 1958, the Working Group commended the procedure according to which loans are being provided to handloom weavers with a view to enabling them to take shares in a weavers' co-operative society, for adoption by the government in respect of all industrial co-operative societies. The practice according to which the central government, through the All-India Handloom Board, provides state governments with loans for contribution to the share capital of apex weavers' societies has been recommended for adoption in respect of the industries dealt with by the other Boards. The Report has emphasized that no industrial co-operative society should be registered without a comprehensive on-the-spot study of its prospects of success. Another recommendation is that every state should have a co-operative apex marketing society for industrial goods to serve as a business and promotional body. The Report has stated that every endeavour should be made as early as possible to place the financing of industrial co-operative societies on an institutional footing. However, as

the change-over to institutional financing will be a slow and difficult process, the Report has recommended measures to be taken by the government to create confidence among the institutional financing agencies. Various steps such as the drawing up and enforcement of schemes for standardization, at least for the major products of cottage and small-scale industries, and help from the state by way of preference to the products of co-operative societies for cottage and small-scale industries have been suggested in the Report. As regards administrative arrangements, the Report is in favour of keeping co-operative financing agencies and the societies financed by them under the administrative control of a single authority, namely the Registrar of Co-operative Societies, wherever possible. Where there are two or more authorities, their work should be co-ordinated under a Registrar-General or by designating the senior Registrar as Registrar-General or by constituting the two or more authorities into a Board with the senior Registrar as chairman. The Report was in favour of the same Secretary to the government and, if possible, the same Minister, being placed in charge of the state Departments of Industries and Co-operation.

One of the recommendations of the Working Group was that wherever co-operative banks were unable to finance industrial co-operative societies, they might be financed by the State Bank. We may refer here to the pilot scheme for small-scale industries initiated by the State Bank in April 1956 in three centres. The agencies working the scheme are, apart from the State Bank, the state Departments of Industries, state financial corporations and co-operative banks. If any doubt arises, their representatives will decide which agency should deal with the application. Otherwise, each agency deals directly with the applications received by it. The scheme was extended to all the branches of the State Bank with effect from 1 January 1959. The number of units and the amount of credit limit sanctioned by the State Bank for working capital rose by 49·6 per cent to 5,834 and by 73·8 per cent to Rs 30·6 crores in 1964 over the previous year's figures.

A notable recent development has been the coming into force on 1 July 1960, of a scheme drawn up by the Government of India in consultation with the Reserve Bank, for the guarantee of advances granted to small-scale industries with a view to protecting them to some extent against losses likely to arise in regard to such advances. The scheme is administered by the Reserve Bank. The facilities for guarantee will be available to specified scheduled banks, state financial corporations, state co-operative banks and such other institutions as may be specified in this behalf. The scheme has now been placed on a permanent footing and it now covers the entire country. The Reserve Bank's Annual Report for 1964 points out that 4,478 certificates covering Rs 17·95 crores were issued during 1963–4 as compared with 2,437 certificates for Rs 9·73 crores during the previous year. Although applications for guarantee continued to be received mainly from the State Bank, it has been reported that many other institutions have been increasingly availing themselves of this scheme of guarantee.

In September 1962, the Government of India appointed another Working Group to review the position of industrial co-operatives and to recommend suitable programmes of development. In its Report published in May 1963, the Working Group has proposed the setting up of 15,000 new industrial co-operative societies, with 1,500,000 members, which would bring the total number of industrial co-operative societies to 48,000 and membership to 4,000,000 by the end of the Third Plan in 1965–6. The Report has stressed that this programme would require an energetic and efficient departmental set-up in the centre and the states.

CONCLUSIONS

Co-operation, after more than half a century of stagnation, is now finding its feet and has secured a place in the country's plans for economic development. What is being attempted under the co-operative development plans is strong state

support, especially in finance, to enable the co-operative movement to hold its own against the competition of money-lenders and traders and eventually to stand on its own feet. Credit is being developed in conjunction with marketing and processing since these are all linked together. In this endeavour, special attention should be given to the needs of the small cultivators and tenants. The emphasis of the system of loans will not be on land, but on crops as security. This makes it necessary to have efficient arrangements for marketing and also for audit, supervision and general administration. Further, while it is easy to suggest that loans should be given on the security of crops and not of land, i.e. on the crop loan system, the introduction of this system presupposes active village credit societies and active co-operative financing banks. A great deal of extension and educational work will be necessary on the part of both the departmental and the co-operative staff.

Various safeguards have been provided in the scheme to preserve co-operative autonomy in this state-partnered co-operative movement. One of these is the provision, at the primary level in particular, for retirement of the share capital provided by the government. Such retirement will be made by collecting more share capital from members. Another is the procedure according to which the partnering state government will not have more than three of its nominees on the board of a co-operative institution in which it takes shares.

In quantitative terms, there has been a big expansion of co-operative credit since planning entered the co-operative stream. In 1951–2, co-operative societies provided 3·1 per cent of the total borrowings of cultivators. In 1961–2, this share had risen to 25·9 per cent. However, co-operative marketing and processing have not developed side by side and the link between credit and marketing is still weak. Further, taking the system as a whole, there are many weaknesses to be remedied, some of the most serious being inadequate and not properly qualified staff for audit and supervision, co-operative banks having either inadequate, or no staff at all, for supervision, laxity in recovering loans, resort to

irregular practices such as book-adjustments and, in general, a reluctance to carry out schemes to a successful conclusion by energetic action. Credit forms a vital part of the agricultural programmes in the Five-Year Plans. This has to be provided by co-operative societies. Unless they are strong and their weaknesses are removed, they cannot provide loans and recover such loans effectively. To remove these weaknesses, patient but energetic and hard work is necessary on the part of the departmental staff, of the co-operative banks' and societies' staff and the non-official co-operative workers, especially the board of directors of co-operative societies and of banks. Unless this is forthcoming, there is a possibility of the co-operative credit system being replaced by alternative systems temporarily or permanently in areas where they are weak or dormant—alternatives which may imperil the long-term prospects for co-operation. This is a challenge to all co-operative workers, official and non-official. The choice before co-operation today is either to remove its weaknesses and function, with full state support, as a dynamic and efficient agency with national importance, or else to slide back into an isolated movement which has developed only in limited favourable areas, unable to make any strong impact on the economy of the country.

TABLES

TABLE I

GENERAL FIGURES FOR THE INDIAN CO-OPERATIVE MOVEMENT, 1961-62

State	Number of Societies				Primary Society Members		Working Capital+ (Rs 1,000)	Population in Millions@	Percentage of Population Affected by Primary Agricultural Credit Societies*
	State Co-operative Banks	Central Banks & Banking Unions	Primary Agricultural Credit	Primary Non-agricultural Credit	Agricultural Credit	Non-agricultural Credit			
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	2	25	14,582	890	15,72,000	2,64,000	1,48,90,87	36·73	21·4
Assam	1	9	5,177	346	2,91,000	27,000	16,70,75	12·48	11·7
Bihar	1	35	18,394	202	10,66,000	93,000	28,78,58	48·00	11·1
Gujarat	1	24	7,728	879	8,95,000	4,18,000	1,75,54,59	21·44	20·9
Jammu and Kashmir	1	4	1,116	87	2,45,000	3,000	5,50,65	3·60	34·0
Kerala	1	7	2,397	527	9,85,000	2,33,000	32,92,23	17·41	28·3
Madhya Pradesh	1	54	20,312	556	10,24,000	88,000	84,00,19	33·79	15·2
Madras	1	15	11,103	1,025	29,08,000	8,43,000	1,98,68,28	34·08	42·7
Maharashtra	1	26	19,480	1,720	19,91,000	12,21,000	3,44,50,55	40·75	24·4
Mysore	1	23	9,361	1,083	13,58,000	5,19,000	1,15,05,50	24·20	28·1

Orissa	1	17	6,546	205	4,36,000	45,000	30,24,65	18·23	11·9
Punjab	1	34	19,019	2,213	14,27,000	1,36,000	81,41,32	21·00	34·0
Rajasthan	1	29	11,535	354	7,71,000	41,000	33,11,39	21·00	18·4
Uttar Pradesh	1	56	54,700	1,057	37,97,000	2,42,000	1,58,23,29	75·66	25·1
West Bengal	1	29	11,816	679	6,22,000	6,96,000	62,75,30	36·45	8·5
Andaman and Nicobar Islands	..	..	19	1	1,000	..	21,39	0·06	8·3
Delhi	1	..	361	523	23,000	84,000	12,94,91	2·66	4·3
Himachal Pradesh	1	..	811	63	72,000	4,000	1,83,85	1·35	26·7
Manipur	1	..	200	50	24,000	2,000	79,45	0·78	15·4
Pondicherry	1	..	77	9	10,000	9,000	1,22,74	0·37	13·5
Tripura	1	..	347	8	54,000	1,000	1,37,77	1·14	23·7
All-India Total	21	387	2,15,081	12,477	1,95,72,000	49,69,000	15,34,78,25	451·18	21·7
Total (Previous Year)	21	390	2,12,129	11,995	1,70,41,185	45,73,213	13,12,09,05	437·66	19·5

SOURCE: The Reserve Bank's *Statistical Statements Relating to the Co-operative Movement in India* for the year 1961-2.
+Includes working capital of all types of societies and not merely those indicated in this table.
@Mid-year estimate of population for 1962 furnished by the Registrar-General of Census Operations.
*On the basis of 5 to a family of each primary credit society member.

TABLE II

ALL-INDIA PROGRESS OF THE CO-OPERATIVE MOVEMENT FROM 1906-7 TO 1961-62

Period Covered	Number of Societies		Number of Members (in 000's)		Working Capital	
	All Types	Agri-cultural@	Agri-cultural@	Non-agri-cultural+	Total (Rs lakhs)	Percentage of owned funds to Working Capital*
1	2	3	4	5	6	7
Average for 4 years from 1906–7 to 1909–10 ..	1,926	1,713	1,08	54	68	21·8
Average for 5 years from 1910–11 to 1914–15 ..	11,786	10,891	4,59	89	5,48	20·8
Average for 5 years from 1915–16 to 1919–20 ..	28,477	25,873	9,03§	2,26	15,18	24·7
Average for 5 years from 1920–21 to 1924–5 ..	57,707	51,716	16,61	4,94	36,36	23·0
Average for 5 years from 1925–6 to 1929–30 ..	93,936	83,093	27,92	8,97	74,89	22·8
Average for 5 years from 1930–31 to 1934–5 ..	1,05,714	93,149	30,64	12,59	94,61	27·2
Average for 5 years from 1935–6 to 1939–40 ..	1,16,960	1,01,507	34,38	16,39	1,04,68	29·7
Average for 5 years from 1940–41 to 1944–5 ..	1,49,888	1,29,698	47,68	24,50	1,24,35	29·9
Average for 5 years from 1945–6 to 1949–50 ..	1,59,185	1,33,616	65,60	41,72	1,88,73	28·6
Average for 5 years from 1950–51 to 1954–5 ..	1,94,832	1,60,933	90,33	55,72	3,30,32	30·9
Average for 5 years from 1955–6 to 1959–60 ..	2,68,091	2,14,244	1,49,76	77,15	7,39,14	26·2
1960–61 ..	3,32,488	2,55,621	2,41,36	1,00,55	13,12,09	24·2
1961–2 ..	3,41,841	2,58,598	2,71,57	1,06,87	15,34,78	24·0

SOURCE: The Reserve Bank's *Statistical Statements Relating to the Co-operative Movement in India*, 1961–2, p. 4.

@ The term 'agricultural societies' refers to credit, non-credit and insurance societies, grain banks and primary land mortgage banks.

\+ The term 'non-agricultural societies' refers to credit, non-credit and insurance societies.

* The term 'owned funds' refers to share capital, reserve and other funds.

§ Excluding members of cattle insurance societies at the end of 1915–16 and 1916–17 and members of such societies in Bombay and United Provinces at the end of 1917–18.

NOTE: Data up to 1937–8 include figures relating to Burma. Similarly, data for 1946–7 and subsequent years exclude figures relating to Pakistan, while those for earlier years relate to undivided India. Minor explanatory notes have not been indicated.

TABLE III

NUMBER OF PRIMARY AGRICULTURAL CREDIT SOCIETIES BY TYPES OF LIABILITY (ALL-INDIA)

Year	Unlimited Liability		Limited Liability	
	No. of societies	Percentage	No. of societies	Percentage
1952–3	79,403	71·1	32,225	28·9
1955–6	93,793	58·6	66,146	41·4
1958-9	96,155	52·6	86,750	47·4
1961-2	78,398	36.5	1,36,682	63·5

SOURCE: The Reserve Bank's *Statistical Statements Relating to the Co-operative Movement in India.*

TABLE IV

LOANS DUE BY INDIVIDUALS AND OVERDUES (ALL-INDIA) 1961-2

(Rs 1,000)

State	Primary Agricultural Credit Societies			Primary Non-Agricultural Credit Societies		
	Loans due at the end of the year by individuals	Of which overdue	Percentage of overdues to loans outstanding	Loans due at the end of the year by individuals	Of which overdue	Percentage of overdues to loans outstanding
1	2	3	4	5	6	7
Andhra Pradesh ..	24,11,53	4,48,84	18·6	5,06,52	1,01,07	19·9
Assam ..	1,69,79	1,20,91	71·2	47,84	3,42	7·1
Bihar ..	3,11,72	1,49,28	47·9	4,49,55	11,06	2·5
Gujarat ..	27,37,09	6,81,90	24·9	10,82,08	61,18	5·7
Jammu & Kashmir ..	1,30,61	32,65	25·0	6,80	2,00	29·4
Kerala ..	7,07,53	1,22,50	17·3	2,24,27	38,99	17·4
Madhya Pradesh ..	21,73,02	6,29,31	28·9	2,00,86	24,94	12·4
Madras ..	31,35,55	3,24,82	10·4	17,67,62	1,06,36	6·0
Maharashtra ..	52,07,94	15,29,88	29·4	36,41,39	1,81,81	4·9
Mysore ..	18,33,85	8,40,76	45·8	8,39,53	1,04,42	12·4
Orissa ..	4,85,07	98,39	20·3	80,18	17,49	21·8
Punjab ..	19,23,52	4,42,75	23·0	1,65,55	54,43	32·9
Rajasthan ..	6,53,94	2,93,84	44·9	89,50	8,58	9·6
Uttar Pradesh ..	31,48,85	3,87,83	12·3	4,30,92	14,30	3·3
West Bengal ..	4,99,64	1,43,49	28·7	31,62,63	74,57	2·4
Andaman & Nicobar Islands ..	71	52	73·2	17	14	82·4
Delhi ..	56,67	12,78	22·6	2,79,71	9,78	3·5
Himachal Pradesh ..	24,18	11,29	46·7	3,99	1,26	31·6
Manipur ..	8,11	7,98	98·4	78	12	15·4
Pondicherry ..	28,30	23	0·8	8,89	48	5·4
Tripura ..	19,90	12,58	63·2	13	6	46·2
All-India Total ..	2,56,67,52	62,92,53	24·5	1,29,88,91	8,16,46	6·3
Total (previous year) ..	2,18,00,47	44,29,98	20·3	1,15,55,17	7,86,86	6·8

SOURCE: The Reserve Bank's *Statistical Statements Relating to the Co-operative Movement in India*, 1961–2.

NOTES ON SOME OF THE STATES

ANDHRA PRADESH	Formed after 1951 out of territories of the old Madras State and the former Hyderabad State.
GUJARAT	Formed out of the old Bombay State in 1960.
KERALA	Consisting of the old State of Travancore-Cochin, with the exchange of some territories with the Madras State.
MADHYA PRADESH	Formed out of the old Madhya Pradesh State with the addition of the old States of Madhya Bharat (except for a small area), Vindhya Pradesh, Bhopal and a sub-division of the Kota District of Rajasthan.
MAHARASHTRA	Carved out of the old Bombay State, with the addition of portions of the old Hyderabad and Madhya Pradesh States.
RAJASTHAN	Formed out of the Old Rajasthan State with the addition of some territories of the old Bombay, Madhya Bharat and Ajmer States.

(Source: *Census of India, Paper No.* 1 *of 1962, 1961 Census, Final Population Totals*, published by the Government of India, New Delhi, pp. 363–67)

GLOSSARY OF INDIAN TERMS

Adivasi:	Aboriginal inhabitant.
Anna:	1/16th of a rupee.*
Bania:	Trader; money-lender.
Beopari:	Trader; money-lender.
Bhang:	Dried leaves of hemp.
Charkha:	Spinning-wheel.
Chawl:	Small flat; tenement.
Crore:	10,000,000.
Ganja:	Unfertilized blossoms of hemp used in making *bhang*.
Ghee:	Clarified butter.
Godown:	Store-room or warehouse.
Gola:	Store-room for grain.
Gur:	Crude sugar; same as *jaggery*.
Harra:	Wild myrobalan fruit, used in tanning, dyeing, etc.
Hundi:	Bill of exchange; a two-name trade acceptance.
Jaggery:	Crude sugar; same as *gur*.
Khaddar:	Hand-spun and hand-woven cloth.
Lakh:	100,000.
Mahajan:	Money-lender (literally, Great Man); also *marwari*.
Maund:	A varying measure; from about 25 to about 85 lb. avoir.
Mofussil:	'Up-country'; outside the metropolis.
Nidhis:	A kind of mutual credit association in South India.
Paddy:	Unhusked rice.
Panchayat:	Literally, Council of Five; the traditional administrative authority of the Indian village; also the managing committee of a village co-operative society.

* With effect from 1 April 1957 India has changed over to the decimal system of coinage. Following the Indian Coinage (Amendment) Act 1955, the Indian rupee is divided into one hundred units, the unit coin being designated *paisa*.

Panchayatdar: Member of a managing committee; also *panch*.

Panchayat Samiti: A federation of village panchayats, generally at the *taluka* or sub-divisional level.

Pathans: Afghans, many of whom are in India as itinerant money-lenders.

Pattedar: Landowner.

Rupee: About 1*s*. 6*d*.

Ryot: Farmer; peasant.

Sahukar: Money-lender; trader. (Sometimes spelt *sowcar*).

Shri: Mr.

Seer: 1/40th of a maund.

Shroff: Indigenous banker.

Swadeshi: Indian-made goods.

Taccavi: Government loans to agriculturists.

Taluka: A sub-division of a district.

Toddy: Fermented juice of various palms.

Zamindar: Landholder; landlord.

Zilla Parishad: A federal body, at the district level, of *Panchayat Samitis*.

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CHAPTER IV

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Note: This is primarily a subject index, and the names of only a few co-operative societies or individuals prominent in the movement are listed. For the same reason, and also because the different states and their various co-operative committees are repeatedly referred to, indexing under political divisions and regional committees has been avoided as far as possible.

The abbreviation ff. indicates that the subject concerned has been dealt with in some detail in the page referred to and also in the pages immediately following. The Latin phrase *et passim* means 'and here and there'.